Oil & Gas

Upstream PSUs: Better times ahead, Gas Sector Languishing Further

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SECTOR UPDATE

Upstream PSUs: Better times ahead, Gas Sector Languishing Further

With softening of crude oil price and diesel price getting partially deregulated, we expect earnings of Upstream PSUs to accrete in FY14 and FY15. The earnings could be further enhanced by a domestic gas price hike which seems to be very likely in the near term. However, we expect Gas players to continue their weak show on account of availability and affordability issues amongst core users.

Softening Crude Oil Price and Reforms to Boost the Earnings of Upstream PSUs

We expect crude oil price to average at $ 105/bl and $ 100/bl with rupee at 54 and 52 in FY14 and FY15 respectively. We have assumed under recoveries for diesel to stabilize around Rs 3/liter in FY15. This is likely to come down to zero as well, however we prefer to stay conservative due to policy uncertainties. We expect under recoveries to come down to Rs 1140 bn in FY14 and Rs 970 bn in FY15. Thus we assume 23% and 11% increase in the net realizations of ONGC and Oil India respectively in FY14 YoY

Gas Price Hike on the Anvil: Benefits Reducing down the Value Chain:

The Oil Ministry has proposed to the Cabinet to approve gas pricing formula ($6.77/mmbtu) recommended by the Rangarajan Committee in order to incentivize producers without hitting the core consumers adversely. We expect an increase of Rs. 3/shr and Rs. 4.5/shr in the EPS of ONGC and Oil India resp. for every $1/mmbtu increase in gas price. Further hike (in accordance with the demand of producers) could dent the volume offtake from the core consumers.

Upstream PSUs a Better Bet

We still find Upstream PSUs attractive, looking forward to catalysts in the form of zero under recovery on diesel; lower LPG and Kerosene losses, and higher gas price and buoyant volumes. Languishing supplies from domestic fields and lower demand for expensive RLNG will continue to hit the earnings of Gas distributors. ***We assign a BUY rating on ONGC and Oil India viewing possibility of further rerating, whereas we stay cautious on Cairn India as outlook for crude oil looks grim. Even though the fundamental outlook is grim, we assign a HOLD rating on RIL, Gail India, GSPL, and Gujarat Gas due to cheap valuations. Significant correction in Petronet LNG gives an opportunity to BUY. We also reiterate BUY rating on IGL.***

ONGC	**BUY**
CMP (Rs)	299
TP (Rs)	345
Upside (%)	15
Oil India	**BUY**
CMP (Rs)	554
TP (Rs)	650
Upside (%)	17
Cairn India	**HOLD**
CMP (Rs)	284
TP (Rs)	320
Upside (%)	13
RIL	**HOLD**
CMP (Rs)	793
TP (Rs)	800
Upside (%)	1
GAIL	**HOLD**
CMP (Rs)	285
TP (Rs)	329
Upside (%)	15
GSPL	**HOLD**
CMP (Rs)	52
TP (Rs)	62
Upside (%)	20
Petronet LNG	**BUY**
CMP (Rs)	118
TP (Rs)	158
Upside (%)	34
IGL	**BUY**
CMP (Rs)	265
TP (Rs)	320
Upside (%)	21
Gujarat Gas	**HOLD**
CMP (Rs)	200
TP (Rs)	240
Upside (%)	20

Source; Bloomberg

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Despite Attractive Valuations of Gas Distributors, PSUs remain preferable bet

Why Upstream PSUs Outperformed

- Diesel Price Hike by Rs10/ltr in one year
- Under recoveries reducing from Rs 500 Cr /day to Rs. 300 Cr/day in last 7-8 months
- Lower Upstream Share of Subsidy Burden at 37.3% in FY13
- Consequently Stable Net Realization despite 17% increase in Subsidy Burden

Why we Expect the Rally to Continue

- Crude Oil price expected to soften
- Under recoveries expected to reduce by 29% YoY in FY14 and 15% in FY15
- Net Realization to improve despite no further hikes in Diesel at current level of crude and rupee
- Domestic Gas Price hike likely

Why Gas Distribution Under Performed

- Reduction in Gas output by ~40 mmscmd from KG Basin
- High LNG prices reduced offtake of Natural Gas
- Anticipation over Domestic Gas price hike resulted in contraction of margins
- No incremental volumes since last 8 -10 quarters

Why we Still Expect them to be Laggards

- Additional domestic volumes subject to Gas price Hike, taking additional 3-4 years to develop
- Domestic Gas price Hike to reduce offtake further as core sectors unlikely to afford
- Margins also likely to hit with a Gas price hike
- Expensive Imported LNG to find lesser takers

Why Private players were laggards

- No significant incremental proved resources from both RIL in Cairn in FY13
- Volumes dip due to reservoir problems
- Refining Margins under pressure

Why we are not bullish

- Softening crude oil price to lower realization from crude oil
- GRMs and petchem margins also expected to soften consequently
- Proved and probable resources of both Cairn and RIL already priced in

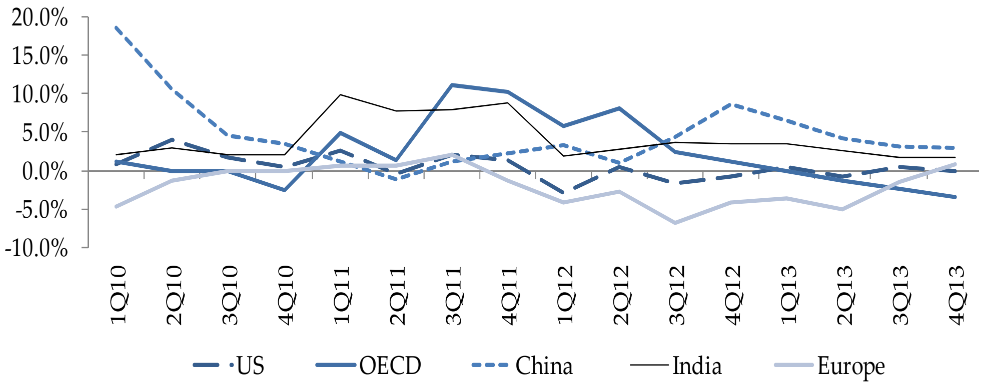
Crude Oil Price; Outlook seems Grim

Weakening Macros: Oil Price likely to remain Subdued

The top 10 consumers of Oil are witnessing dip in their GDP growth as well as their vehicle sales growth. The emerging economies – who contribute maximum to incremental consumption globally - have already started witnessing demand destruction. **The OECD economies have been witnessing negative growth in demand since last 4 consecutive quarters**. The Industrial fuels have been replaced with alternative and heavier fuels, thus reducing demand for lighter crude oil.

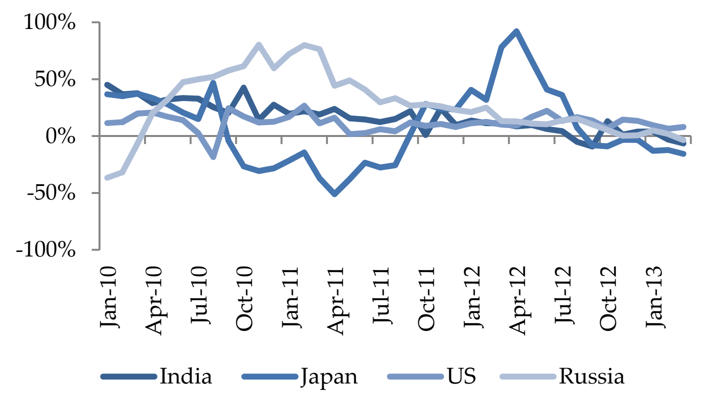
The crude oil price has been unable to hold strong above $105 despite OPEC cutting its production by 5% in last 1 year. The incremental Non OPEC supplies from OECD economies and spare capacity at OPEC is adequate enough to cater incremental demand from the developing countries. Thus demand supply imbalance is ruled out to result in a further spike in crude oil price.

Exhibit 1: Top consumers waning



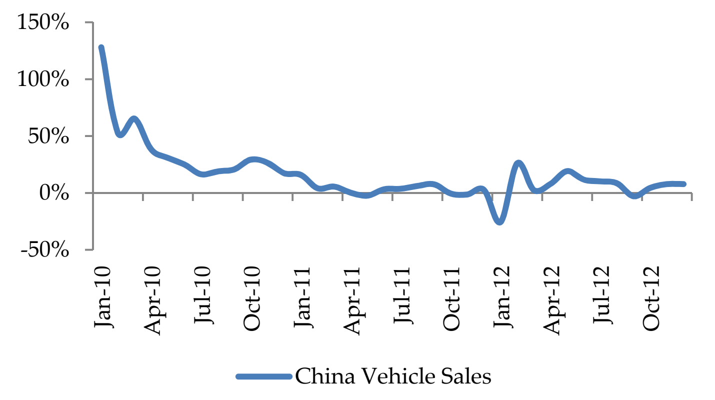
Source: Bloomberg, Karvy Institutional Research

Exhibit 2: Globally Vehicle consumption reducing



Source: Bloomberg, Karvy Institutional Research

Exhibit 3: China Vehicle registration fall



Source: Bloomberg, Karvy Institutional Research

Diesel Price Hikes: A Road to Rerate PSUs

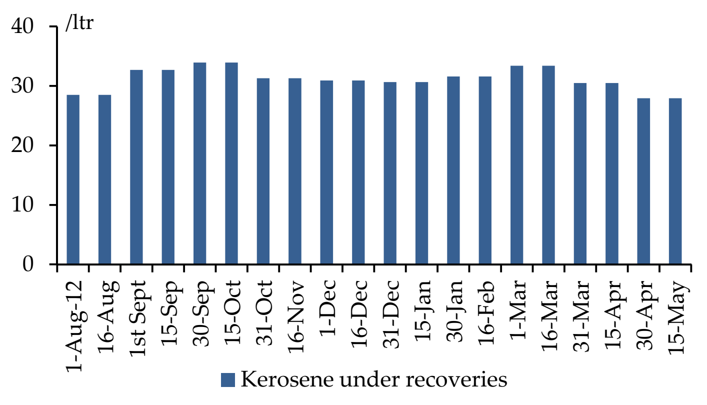
Under Recoveries expected to Reduce Substantially

The diesel price has been hiked from Rs. 40.9/ltr in March 2012 to Rs. 49.7/ltr in May 2012. This has reduced the under recovery to Rs 3.8/litre as against Rs. 12-13 /ltr a year back. Assuming crude to stabilize at $105/bl in FY14, even if the government settles down for 3-4 hikes (of 50 paise every month) for the year considering upcoming elections, our FY14 earnings are expected to jump 23% and 17% YoY for ONGC and Oil India respectively.

We have assumed under recoveries to come down by 29% to Rs. 1140 bn in FY14 with a crude oil price of $105/bl and rupee at 54. We have assumed Kerosene at Rs. 29/ltr and LPG at Rs. 400/cylinder in FY14. We expect diesel under recoveries to reduce from Rs 10/ltr in FY13 to Rs. 4.5/ltr

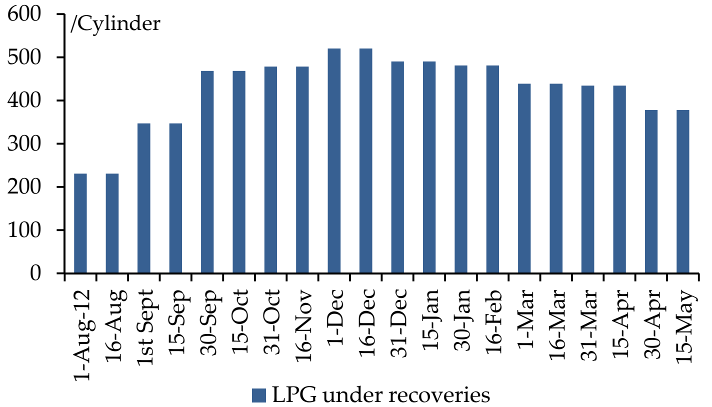
Further hikes, in order to deregulate diesel, could rerate PSU stocks including OMCs. We have assumed Rs 3/ltr under recovery for diesel in FY15 despite correction in crude oil price to $100/ltr considering political sensitivity of the issue.

Exhibit 4: Under recoveries Cooking Fuel



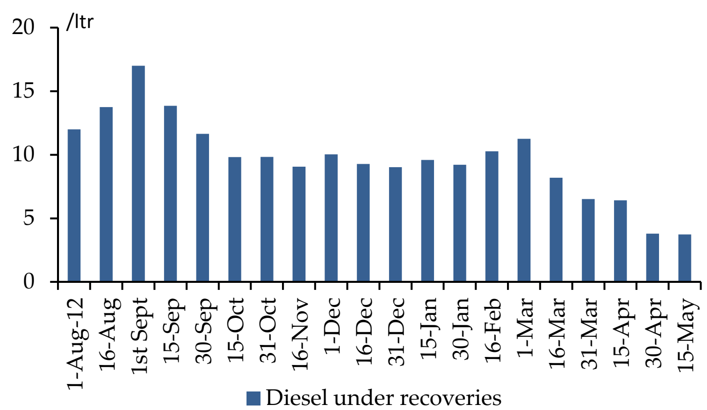
Source: Karvy Institutional Research, PPAC

Exhibit 5: Under recoveries Cooking Fuel



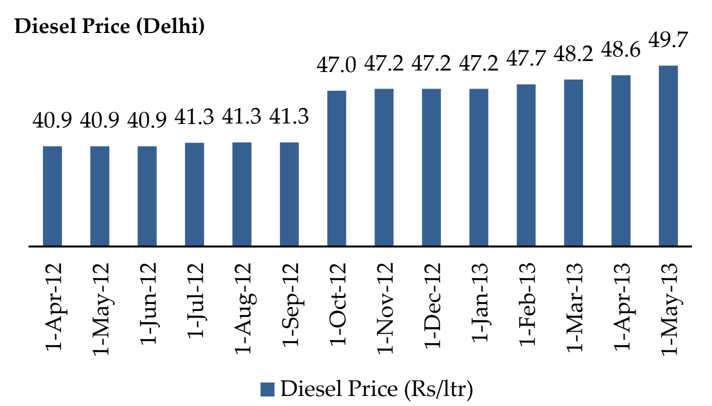
Source: Karvy Institutional Research, PPAC

Exhibit 6: Diesel Under recoveries



Source: Karvy Institutional Research, PPAC

Exhibit 7: Diesel Price Revisions Last Year



Source: Karvy Institutional Research, PPAC

Upstream PSUs Benefit as Reforms Unfold and Crude comes Down

Net realizations to Improve; Subsidy Burden likely to Reduce

Assuming crude oil price at R$100/bl in FY15, there is a possibility of having zero subsidy on losses, due to market determined pricing. However we have assumed Rs 3/ltr under recovery considering the political uncertainties. ***Our scenario analysis suggests that net realization could cross $ 70/bl for both the companies if the diesel under recovery is done away with.*** We don't expect under recovery on diesel to cross Rs 6 /ltr (our assumption Rs. 4.5/ltr) even if crude oil price and rupee stabilize at current levels. Currently, with an exchange rate of 58 and crude at $ 105, diesel losses stand at Rs. 7.5/ltr. Expecting another 2-3 hikes, under recoveries are unlikely to cross Rs. 6/ltr in FY14 and FY15 (Rs 10 /ltr in FY13).

Exhibit 8: Sensitivity of earnings to Diesel Under recoveries

Sensitivity Analysis with crude at $100/bl and Rupee 52				
Under recovery Diesel Rs /liter	0	1.5	3	4.5
Total Under recoveries (Rs. Bn)	727.6	850.6	973.6	1103.8
Net realization ONGC($/bl)	70.68	65.4	60.6	55.26
EPS (FY15)	42.6	39.9	37.5	34.5
Net Realization Oil India($/bl)	69.7	63.9	60.2	55.4
EPS (FY15)	87.3	81.1	74.5	68.4

Source: Karvy Institutional Research

Exhibit 9: Sensitivity of earnings to Diesel Under recoveries

Sensitivity Analysis with crude at $105/bl and Rupee 52					
Under recovery Diesel Rs /liter	0	1.5	3	4.5	6
Total Under recoveries (Rs. Bn)	784.9	907.8	1038.0	1175.5	1291.3
Net realization ONGC($/bl)	73.34	68.3	63.0	57.2	52.6
EPS (FY15)	45.9	43.3	40.5	37.5	35.1
Net Realization Oil India($/bl)	73.1	68.4	63.4	58.2	53.8
EPS (FY15)	91.7	85.5	79	72	66.2

Source: Karvy Institutional Research

OMCs: Unlikely to be beneficiary without timely compensation; Mulling EPP method to compensate OMCs a worry

The under recoveries are expected to come down by 500 bn in FY14 and further Rs. 200 bn in FY15 after diesel price hikes and softening of crude oil price. However this would reflect in their earnings only if they are compensated timely for losses on cooking fuels. We believe OMCs won't be rerating unless they earn a sustainable ROE of more than 10%. However, they have been reporting lower ROEs due to untimely compensation and consequently high financing burden. Recently finance ministry has insisted to adopt Export Parity Pricing methodology to calculate and compensate for under recoveries. This makes us wary about Government's hesitance to compensate them fully for the losses incurred.

Gas Price Hike: Benefiting Upstream

Hike not Ruled out despite Agitations

We do not rule out domestic gas price hike as the producers are demanding the same for incremental production from deepwater fields. They are reluctant to go ahead with the production unless guaranteed with reasonable incentives including doubling of gas price (trebling, in case of RIL). The existing producers are also expected to be benefiting out of the same as there doesn't seem to be possibility of dual pricing of domestic gas going forward.

Exhibit 10: Producers seeking gas price hike

Gas Price demands by different producers	
Essar CBM priced at	$ 5.25/mmbtu
Cairn India Rajasthan Gas	$ 8.5/mmbtu
ONGC (Deep Water in KG Basin)	$8-12/mmbtu
RIL (~6-8 TCF resources in KG)	> $ 10/mmbtu
RIL CBM resources in Suhagpur	$13/mmbtu
GSPC Deen Dayal Block	$ 14.2/mmbtu

Source: Karvy Institutional Research; Media Reports

Upstream Players' major Beneficiaries

However we only expect upstream companies to benefit largely on account of a price hike. We have assumed net increase of $1.5/mmbtu in domestic gas price (in FY15) on a conservative basis, as they might share the losses with the government if the hike is higher. Our sensitivity analysis indicates Rs. 3 and Rs 4.5 increase in EPS of ONGC and Oil India respectively on per $/mmbtu increase.

Exhibit 11: Sensitivity analysis of Gas Price Hike

Increase in gas price by…	ONGC (EPS)	Oil India (EPS)
$1/mmbtu	36	72.3
1.5/mmbtu	38	74.5
$2/mmbtu	39	77.7
$ 3/mmbtu	42.1	82.2
$ 4/mmbtu	45.2	86.6
$ 5/mmbtu	48.2	91.1

Source: Karvy Institutional Research

Transmission Volumes to be Tepid at least in Next 2-3 years

Domestic gas Volumes expected to be Tepid

We expect gas distributors to report flat volumes as there is no meaningful increase in domestic gas production in the medium term from the prospective fields. Meaningful addition to the production is expected from KG basins by RIL and ONGC. However, they are not expected to ramp up before 2016 post price hike approval. ONGC is expected to ramp up in its marginal fields with C series B Cluster and GS fields to the extent of 7-10 mmsmcd.

Exhibit 12: Domestic Gas Projections Tepid

Domestic Gas	FY13	FY14	FY15	FY16
ONGC	64.5	66.5	73.5	78.5
Oil India	7.2	7.4	8.6	8.9
RIL	26.0	14.0	15.0	18.0
Others	13.7	12.0	11.0	10.0
Total	**111.4**	**99.9**	**108.1**	**115.4**

Source: Karvy Institutional Research;

…Which Counts out Significant Power and Fertilizer Demand, as it calls for Breakthrough Reforms to Absorb Expensive RLNG

We don't expect core users like Fertilizers and Power Sector to increase usage of RLNG in the near term, as it could add to already higher losses in the existing set up. As per our calculation, each $/mmbtu increase in the gas price increases the unit charge by ~45-50 paise/unit. At current operational capacity of 18000 MW at 70% PLF the losses increase by ~ 60 bn. This could increase further if we consider the capacities under construction, which totals up to 28000 MW.

The cost per tonne of urea is expected to increase by Rs.1500/tonne with every $/mmbtu increase in domestic gas price. With 18MMT of urea produced indigenously, the subsidy burden is expected to increase by Rs 27 bn every $1/mmbtu. This could increase further if we consider additional 5 MMT urea capacity being converted from Naptha/FO/LSHS to gas based.

Exhibit 13: Impact of $/mmbtu increase in Gas price on Core Sectors

Additional impact	
Power Tariff (Rs/unit)	0.55
Subsidy Burden (Rs. Bn)	60
Cost of Urea (Rs/tonne)	1500
Subsidy Burden (Rs. Bn)	27

Source: Karvy Institutional Research

Absorption of Imported LNG restricted to Latent Users

Out of the total LNG consumed 67% is used by noncore users including CGD entities, Industrial users, Refineries and Petchem units. We don't deny these sectors to be potential demand generators as they can afford LNG, being cheaper than the alternative fuels.

Exhibit 14: Cost of LNG as compared to alternative fuels

($/mmbtu)	
RLNG (Delivered Price)	**$20**
Fuel Oil	$23
Diesel	$27
Naphtha	$25
LPG	$36

Source: Karvy Institutional Research, Industry

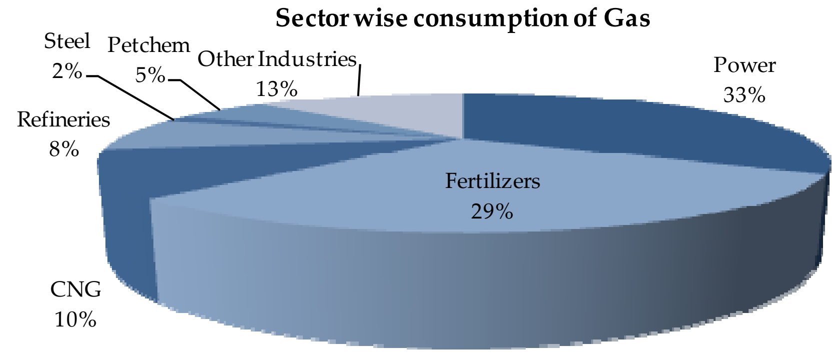
…However its Contribution is not Significant to the Total Consumption and Incremental Demand is lower

Exhibit 15: LNG usage sector wise

LNG as % of total gas consumed	
Power	12.9%
Fertilizers	21.1%
CNG	52.1%
Refineries	82.5%
Steel	74.6%
Petchem & Other Industries	34.9%
Total	**29.6%**

Source: Karvy Institutional Research, Indian Petro

Exhibit 16: Contribution of Latent users not more than 40%



Source: Karvy Institutional Research

Refineries and Petchem sector unlikely to be Prominent Offtakers despite Affording LNG due to Connectivity Issues

The refiners and petchem are not expected to contribute more than 15-16 % to the usage of RLNG due to lower connectivity and easy accessibility of alternative fuels. Most of the existing IOC refineries are located in Eastern and Northern India. The gas pipeline connectivity to these regions is not expected before 4-5 years. The western belt with a better connectivity is expected to consume not more than 15 mmsmcd in next couple of years. The existing usage of natural gas by refineries, dominant in the western belt is ~ 11 mmscmd, 80% of which is being fed by LNG.

Potential Demand in Industrial and CGD users; Calls for PAN India Connectivity and Expedition in Regulatory Clearances

The industrial and the CGD users are expected to constitute major portion of incremental demand for LNG at 30-35%. However the demand is not centralized like Power and Fertilizer sector. The city gas and industrial users are widespread Pan-India. To get a meaningful chunk of demand from them, there has to be an intensive pipeline infrastructure all over the country. This is unlikely, as pipeline infrastructure is driven by visibility of substantial amount gas from our domestic basins and offtake by the Core Sectors in every region. Latent demand from a single region doesn't make a reasonable IRR on investments made.

Besides, no new additions have been made to the CGD sector in last 3 years. Three rounds of bidding have been carried out by PNGRB, though the third round as well as a fourth initiated round were cancelled due to irrational bidding and irregularities Given the long time and high capital requirement in construction of CGD networks, continued inactivity in bidding out the CGD network licenses would delay materialization of demand from the CGD sector and thus delay potential benefits

Exhibit 17: Expected offtake of Gas by Latent Users

(mmscmd)	2012-13	2013-14	2014-15	2015-16	2016-17	2019-20
City Gas	14	16.22	17.19	18.22	22.32	35.94
Industrial	20	20	22	25	27	35
Petchem/ Ref/Int Consn	20	21.92	23.93	26.04	28.27	35.62

Source: Karvy Institutional Research, Vision India Gas 2030

We could make out from the Table above, that the latent users are expected to prominent enough only in longer term. This will be mainly contributed by CNG and Industrial Users. The projection for demand from refineries seems to be very optimistic by the ministry considering lower connectivity of pipelines. Whereas the demand from industrial users seem to be scattered, calling for higher connectivity again.

Thus, Capacity Utilization of Natural Gas Pipelines likely to Remain Low

There is a pipeline capacity expansion of 200 mmscmd adding to the existing 220 mmscmd (consumption still 136 mmscmd) as against visibility of incremental offtake of 60 mmscmd (led by LNG) in the next five years. Thus, we expect the ROEs of the gas transmission companies to continue to remain under pressure in the medium term on account highly leveraged capex incurred.

Exhibit 18: Natural Gas pipeline Details

Upcoming Pipelines	Capacity	Source	Status
DVPL/GREP upgradation	60	RIL KGD6, PLL Dahej	Dahej terminal operating optimally until expansion and KGD6 output reduced by 70% from EWPL
Dadri - Bawana- Nangal	31	DVPL GREP Upgradation	RLNG is the primary source and demand dominated by 3000 MW of power plants
Chainsa-Jhajjar-Hissar	35	DVPL GREP Upgradation	Will have to wait for expansion of Dahej Terminal by 5 MMTPA to be completed (2015-16)
Dabhol -Bangalore	16	Dabhol LNG terminal	Waiting for Breakwater facilities at Dabhol terminal to be completed. High Industrial Demand area
Kochi-Mangalore-Bangalore	16	Kochi LNG Terminal	Awaiting nod from Kerala Tamil Nadu government as farmers are agitating against laying pipelines
Jagdishpur - Haldia	32	Kakinada Haldia RGTIL P/L	Reduction in KGD6 volumes has delayed Kakinada Haldia by RGTIL until ramp up in production
Surat Paradip	30		
Mallavaram-Bhilwada	30	RIL KG, PLL East Coast LNG	Further ramp up in KG basin and completion of Gangavaram terminal to take 3-4 years
Mehsana Bhatinda	30	Dahej,Mundra, Pipavav LNG	Too many pipelines awating Dahej expansion. Other terminals in Gujarat ye t to take off
Bhatinda Srinagar	15	Mehsana Bhatinda P/L	Will have to wait for Gujarat Terminals to commission. Demand yet uncertain in New market
Total			

Source: Karvy Institutional Research

Too many pipelines; Sources a Few

The upcoming pipelines have the capacity of more than 200 mmscmd, although gas sources don't seem to go in tandem. The Dadri-Bawana_Nangal, Chainsa Hissar, GREP upgradation and Mehsana-Bhatinda- Srinagar are heavily reliant upon upcoming LNG terminals in Mundra (5MMT) Pipavav(5 MMT) and Dahej Expansion(5MMTPA), expected not before 2016. Besides many pipelines are still awaiting ramp up in domestic output by RIL and ONGC in KG Basin. Again restoring of the output in KG basin is likely to take 3-4 years.

Impact of Rangarajan Committee Recommendations

The Oil Ministry has proposed to the Cabinet to approve gas pricing formula recommended by the Rangarajan to bridge the gap until 2016-17, by when the ministry is expecting another panel to devise market determined gas pricing strategy. The Oil Ministry is proposing a price of $6.77/mmbtu as against $4.2/mmbtu.

Upstream PSUs to be the Key beneficiaries: Each $/mmbtu increase in the gas price likely to accrete ONGC's EPS and Oil India's EPS by Rs. 3/shr and Rs. 4.5/shr.

Downstream Volumes to remain under pressure as key off takers get affected

Power Sector: Each $/mmbtu price hike in domestic gas price is likely to increase the tariff by Rs. 0.55/unit. This is difficult to be passed through by the SEBs considering the political sensitivity of the regions they are supplying. Besides Coal based plants are supplying cheaper at Rs. 2.5/unit. **We are concerned that the PLFs of the existing plants might reduce further with a gas price hike.** Incremental demand from the stranded plants lying idle for new gas supplies from ONGC's fields also becomes dicey.

Unless accompanied by a steep hike in tariffs by the Power regulator (which is unlikely as elections are nearing) or assurance of subsidy compensations to SEBs by the states, domestic gas price hike is not viable for the Power Sector.

Fertilizer Sector: Each $/mmbtu increase in gas price is expected to increase the fertilizer price by Rs 1500/ tonne. This being politically sensitive again seems to be unlikely. Thus the losses are expected to increase by Rs. 25 bn. This might discourage additional 5MMT conversion of naphtha/fuel Oil based plants to Gas based, thus reducing the incremental off take of natural gas.

Refinery and Petchem and CGD entities: Although price hike is not going to affect these entities due to pass through ability and expensive alternative fuels, lack of demand from Power and Fertilizer players might reduce their accessibility to gas sources as pipeline connectivity is lower.

Likely to Impact Margins too

GAIL's Margins in Petchem and LPG/LH business to shrink:

Higher domestic gas price is expected to likely to offset gains from PATA expansion and lower LPG subsidy burden. We expect an impact of 1.2 Rs/share on Gail India's EPS for every $1/mmbtu increase in the gas price. The earnings could drop further if crude oil price corrects, as it will reduce realizations.

Existing CGD players likely to Take a Hit on their Margins

IGL and Gujarat Gas source ~ 60-70% of gas requirements from the domestic gas fields. Although they are the least affected by the price hike, increasing proportion of RLNG in their consumption has resulted in 40% increase in their cost in last 4 quarters. Since they have been successfully passing it through, they have been taking a hit on their volumes. Further price hike in domestic gas prices will restrict their pass through ability as CNG and PNG's discount to its competitive fuel would narrow.

Impact of Falling Rupee

Rupee has come down to 59 as against our assumption of 54 for FY14. The under recoveries are expected to increase Rs 75 bn for every rupee fall. Assuming rupee at 59 and crude at $105/bl, the under recoveries increase from our assumption of Rs 1140 bn to 1400 bn in FY14. However, we expect weaker rupee to be offset to a large extent with lower crude oil price.

Upstream PSUs:

Higher under recoveries is expected to be offset by higher realizations to a large extent. ONGC is expected to have marginal impact on EPS as higher subsidy burden is expected to be offset by higher realizations in OVL and Gas price. Oil India's EPS is expected to dip by ~1Re for every fall in rupee.

Cairn India's Realization to Improve:

Cairn India Sensitivity to weakening rupee is highest as the valuation improves by Rs 6/shr per rupee fall. However sensitivity to crude oil price is higher to the tune of Rs. 17/shr for every $5/bl. Thus weaker crude could play a dampener for the earnings.

OMCs to bleed further:

Every fall in rupee is likely to increase under recoveries by Rs. 75bn. Assuming rupee at 59 and crude at $105/bl, the under recoveries increase from our assumption of Rs 1140 bn to 1400 bn in FY14. Besides, the export parity methodology raises concerns over adequate compensation also.

Gas transmission companies Neutral; might see some Pressure in the Volumes

The gas transmission companies are expected to stay neutral on rupee front as their tariffs realizations are rupee denominated. However since the Gas prices are dollar denominated the key consumers of gas (Power and Fertilizer companies) might reduce the offtake due to restricted pass through ability. Besides, domestic gas price could be a double whammy.

Gas distribution players to witness shrink in their margins

The gas distributors have been able to pass through the increase in cost of LNG successfully due to dearer alternative fuels. However, the prices have increased substantially by ~35-40%, thus reducing the competitiveness with the alternative fuels and consequently reducing the volume growth. The weakness in rupee along with domestic gas price hike could be a double whammy on the margins of the CGD entities as it restricts their pass through ability.

Institutional Equities
India Research

ONGC

COMPANY UPDATE

Bloomberg: ONGC IN
Reuters: ONGC.BO

BUY

Realizations to improve as Reforms Unfold; Correction gives an opportunity

ONGC reported a flat net realization of Rs 2607/bl in FY13 despite 17% higher under recoveries and lower volumes, as upstream share of subsidy burden reduced from 39% to 37.3%. Keeping upstream share at 39% we expect 23 % increase in the net realization in FY14 to Rs. 3220/bl. Even after accounting for recent depreciation in rupee, downsides to the earnings are unlikely as realization from natural gas segment and OVL improve. We don't expect under recoveries to cross Rs. 6/liter even with rupee at 58 on account of some more diesel hikes and softening crude oil price.

Net Crude Oil Realization to Improve Further

We are assuming an under recovery of Rs 4.5/ltr on diesel in FY14, assuming crude at $ 105/bl and rupee at 54. Assuming a total under recoveries of Rs 1140 bn and upstream share at 39% we expect net realization to improve to $ 59/bl in FY14 and stabilize there going forward.

Gas Price Hike Likely

We expect upstream companies to be likely beneficiaries to the extent of $1.5/mmbtu hike in gas price from FY15. Our sensitivity analysis suggest Rs 3/share change in EPS to per $/mmbtu change in gas price realization.

Volumes under pressure; Realization to offset

The volumes are expected to be under pressure as there is no incremental output expected apart from D1 fields and C Series formation. However these are likely to make up for loss in the ageing fields. The prospective resources in KG basin will take 3-4 years to materialize. We also expect OVL's output to improve marginally to ~8 MMT as volumes from Sudan, Syria restore.

Attractively Valued despite Rally

We expect 16% CAGR increase in net profit till FY15 as we assume some more diesel hikes and 40% reduction in under recoveries. Besides Gas price hike is expected to add to the earnings. We upgrade our rating on the stock to **BUY** with a revised target price of 345 at 10x FY14.

Key Financials

Y/E Mar (Rs Mn)	FY2011	FY2012	FY2013	FY2014E	FY2015E
Net Sales	1,176,105	1,455,068	1,623,863	1,771,211	1,844,088
EBIDTA	490,366	570,064	549,004	637,655	679,062
EBITDA Margin (%)	41.7	39.2	33.8	36.0	36.8
Net Profit	224,566	281,436	237,504	295,242	320,912
PAT Margin (%)	19.1	19.3	14.6	16.7	17.4
EPS (Rs)	26.2	32.9	27.8	34.5	37.5
PER (x)	11.4	9.1	10.8	8.7	8.0
P/BV (x)	2.2	1.9	1.7	1.5	1.3

Source: Company, Karvy Institutional Research

Recommendation

CMP:	Rs299
Target Price:	Rs345
Upside (%)	15%

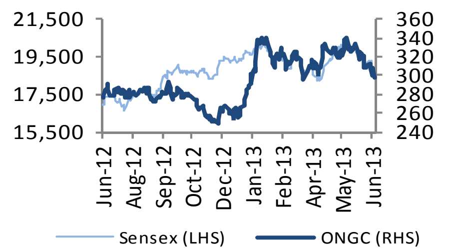
Stock Information

Market Cap. (Rs bn / US$ mn)	2,556/42,820
52-week High/Low (Rs)	355/227
3m ADV (Rs mn /US$ mn)	1,145/19.2
Beta	0.9
Sensex/ Nifty	18,541/5,590
Share outstanding (mn)	8,555

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	(8)	1.1	6.9	11.5
Rel. to Sensex	(2.3)	2.1	(2.1)	16.8

Performance



Source: Bloomberg

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Valuation Analysis

Basis for Assumptions

Net realizations on a rise as under recoveries trim

We have assumed an increase of net realization from Rs 2607/bl to Rs. 3209/bl in FY14 and Rs. 3151/bl in FY15. We have assumed crude oil price at $ 105 in FY14 and $ 100 in FY15 whereas rupee assumption lies at 54 and 52. The under recoveries are expected to come down from Rs 1610bn in FY13 to 1140 bn in FY14 and Rs. 970 bn in FY15. We expect upstream share of subsidy burden at 39% (higher than 37.3% in FY13). We have only assumed Rs 2/ltr hike in FY14. Further hikes in line with deregulating diesel could be an upside.

Impact of falling rupee

The rupee has come down to 59 as against our assumption of 54. ONGC's earnings are unlikely to be impacted with a depreciation in rupee since higher under recoveries are offset by higher realization from natural gas and OVL. If rupee stabilizes at 58 the EPS is unlikely to deviate much from our expectation.

Gas price Hike assumed from FY15

Rangarajan committee recommendations are more likely to be accepted as per the Media reports as the note has been passed to the cabinet. The price recommended by the Oil ministry is $6.7/mmbtu. We have assumed both the upstream companies to benefit to the extent of $1.5/mmbtu. This leaves an upside of $ 1/mmbtu to our assumptions. The Rangarajan committee is keen to imply price hike for PSUs in FY14 itself. Weaker rupee could add to the realization. Each $/mmbtu increase is expected to increase EPS by Rs. 3/shr.

Volume expected to be under pressure

We expect domestic Oil output to be flat (reduced by 5% YoY in FY13) and gas output to increase by 2 mmscmd in FY14 and 5-6 mmscmd in FY15. OVL output is expected to increase by 1.2 MMTOE by FY15 as Sudan and Syria resumes production and Venezuala Carabobo commissions.

Price performance and Valuation Analysis

The stock had rallied on the announcement of phased deregulation of diesel achieving our target price. We were wary about further upsides as the positives were priced in. Post recent correction in the stock price on account of policy uncertainties the stock seems to be attractively valued. Currently the stock is trading at 8.7x FY14E as against historical mean of 10x.

The stock has the potential to rerate beyond our targets if the diesel price hikes of Rs 0.5 are regular and gas price realization is higher. Strengthening of Rupee could be a further trigger. We upgrade our rating from HOLD to BUY on the stock with a revised target price of Rs. 345 (Rs. 320 earlier) at 10x FY14 EPS of 34.5. We upgrade our EPS by 9% for FY15.

Downside Risks

- No further diesel price hikes
- No gas price hike
- Rupee stabilizing weaker

Financials

Exhibit 1: Profit & Loss Statement

Y/E Mar (Rs mn)	FY11	FY12	FY13	FY14E	FY15E
Net revenues	1,176,105	1,473,068	1,623,863	1,771,211	1,844,088
Operating expenses	685,739	886,004	1,074,859	1,133,557	1,165,025
EBIDTA	490,366	587,064	549,004	637,655	679,062
Other income	69,458	48,257	55,185	64,660	64,660
Interest	10,370	4,349	4,850	10,557	12,297
Depreciation	206,284	234,343	231,917	235,015	234,970
Profit Before Tax	343,170	428,035	367,421	456,743	496,455
Provision for tax	114913	143746	127519	158520	172302
Adjusted Net Profit	228,257	284,289	239,902	298,223	324,153
Share in associate profit (Net)	(3690.4)	2842.2	(2398.4)	(2981.5)	(3240.7)
Reported Net Profit	224,566	281,447	237,504	295,242	320,912
EPS	**26.2**	**32.9**	**27.8**	**34.5**	**37.5**

Source: Company, Karvy Institutional Research

Exhibit 2: Balance Sheet

Y/E Mar (Rs mn)	FY11	FY12	FY13	FY14E	FY15E
Equity capital	42,778	42,778	42,778	42,778	42,778
Reserves & surplus	1,110,494	1,321,613	1,482,497	1,705,739	1,954,651
Shareholders funds	1,153,272	1,364,391	1,525,274	1,748,516	1,997,429
Minority Interest	20,012	22,084	19,467	22,448	25,689
Total Loans	62,912	163,025	220,733	104,497	104,507
Deferred tax liability	103,803	114,076	142,251	142,251	142,251
Liab. For abandonment cost	198,503	198,503	198,503	198,503	198,503
Total Liabilities	**1,538,502**	**1,862,079**	**2,106,228**	**2,216,216**	**2,468,379**
Gross block	2,170,355	2,399,893	2,683,750	2,903,560	3,105,254
Depreciation	1,329,807	1,456,720	1,571,561	1,686,103	1,798,558
Net block	840,548	943,173	1,112,189	1,217,457	1,306,695
Capital WIP	376,164	476,980	533,814	556,300	641,567
Goodwill	89,928	77,975	84,296	84,296	84,296
Investments	33,561	29,206	21,282	21,282	21,282
Inventory	85,676	131,680	127,804	139,401	145,136
Debtors	97,724	117,143	153,956	167,926	174,835
Cash & Bank Bal	205,620	273,460	196,191	172,362	247,832
Loans & Advances	200,298	239,770	298,798	298,798	298,798
Current Assets	589,318	762,053	776,748	778,487	866,602
Sundry Creditors	186,528	181,330	160,986	180,491	190,947
Other current liabilities	153,841	196,173	196,173	196,173	196,173
Provision for dividend	7,829	7,829	7,829	7,829	7,829
Other provisions	42,818	41,976	57,113	57,113	57,114
Total	74,478	74,478	74,478	74,478	74,478
Current Liabilities	391,016	427,308	422,101	441,605	452,063
Net current assets	198,301	334,745	354,648	336,881	414,539
Total Assets	**1,538,502**	**1,862,079**	**2,106,228**	**2,216,216**	**2,468,379**

Source: Company, Karvy Institutional Research

Exhibit 3: Cash Flow Statement

Y/E Mar (Rs mn)	FY11	FY12	FY13	FY14E	FY15E
EBIT	284,082	415,532	317,087	402,640	444,092
(Inc)/Dec in working capital	61,301	(68,604)	(112,309)	(6,062)	(2,188)
Cash flow from operations	345,383	346,928	204,778	396,577	441,904
Other income	69,458	48,257	55,185	64,660	64,660
Provisions	(7,249)	(19,709)	(5,293)		
Depreciation	152,233	126,913	114,841	114,542	112,455
Interest paid	(10,370)	(4,349)	(4,850)	(10,557)	(12,297)
Dividends paid	(72,680)	(72,000)	(72,000)	(72,000)	(72,000)
Tax paid	(114,913)	(143,746)	(127,519)	(158,520)	(172,302)
Net cash from operations	361,862	282,294	165,141	334,703	362,420
Capital expenditure	(357,354)	(330,354)	(340,690)	(242,296)	(286,961)
Goodwill	5,457	11,953	(6,321)	0	0
Free Cash Flows	9,965	(36,107)	(181,870)	92,407	75,459
Inc/(Dec) in ST borrowing	33,459	99,5h92	96,677	(116,235)	10
(Inc)/Dec in investments	18,032	4,355	7,924	0	0
Cash from financial activities	45,951	103,948	104,601	(116,235)	10
Opening Cash	149,704	205,620	273,459	196,191	172,362
Closing Cash	**205,620**	**273,460**	**196,191**	**172,362**	**247,832**

Source: Company, Karvy Institutional Research

Exhibit 4: Key Ratios

Y/E Mar	FY11	FY12	FY13	FY14E	FY15E
EPS	26.2	32.9	27.8	34.5	37.5
PER(x)	11.7	9.3	11.0	8.9	8.2
P/BV(X)	2.3	1.9	1.7	1.5	1.3
EV/EBITDA(X)	4.9	4.4	4.5	3.8	3.8
EV/Sales (x)	2.1	1.8	1.5	1.4	1.4
Fixed assets turnover ratio (x)	1.4	1.6	1.5	1.5	1.4
Inventory Turnover	26.6	32.6	28.7	28.7	28.7
Avg. collection period (Days)	30.3	29.0	34.6	34.6	34.6
Avg. payment period (Days)	208	176	143	142	142
ROCE (%)	18.5	18.9	15.1	18.2	18.0
ROE (%)	19.1	20.3	15.4	16.7	15.9
Debt/Equity (x)	0.1	0.1	0.1	0.0	0.0

Source: Company, Karvy Institutional Research

KARVY STOCK BROKING

Oil & Gas

June 25, 2013

Institutional Equities
India Research

Oil India

COMPANY UPDATE

Bloomberg: OINL IN
Reuters: OILI.BO

BUY

Realizations to improve; as Reforms Unfold

Oil India reported a marginal improvement in net realization of Rs 2916/bl in FY13 despite 17% higher under recoveries and 5% lower volumes, as upstream share of subsidy burden reduced from 39% to 37.3%. Keeping upstream share at 39% we expect 11% increase in the net realization in FY14 to Rs. 3251/bl. Even after accounting for recent depreciation in rupee, downsides to the EPS is Rs 4/shr (still 7.5 % growth annually) as realization from natural gas segment improves and the under recoveries are still lower YoY. We don't expect under recoveries to cross Rs. 6/liter even with rupee at 58 on account of some more diesel hikes and softening crude oil price.

Net Crude Oil Realization to Improve Further

We are assuming an under recovery of Rs 4.5/ltr on diesel in FY14, assuming crude at $ 105/bl and rupee at 54. Assuming a total under recoveries of Rs 1140 bn and upstream share at 39% we expect net realization to improve to $ 60/bl in FY14 and stabilize there going forward.

Gas Price Hike Likely

We expect upstream companies to be likely beneficiaries to the extent of $1.5/mmbtu hike in gas price from FY15. Our sensitivity analysis suggest Rs 4.5 change in EPS to per $/mmbtu change in gas price realization.

Volumes under pressure; Realization to offset

The volumes are expected to be under pressure as there is no incremental output expected from anything apart from the existing Assam Arakan Fields. The prospective resources in KG basin as well as Mizoram will take 3-4 years to materialize. We expect Oil output to stay flat at 3.75 MMT and gas to improve by ~0.7 mmscmd in FY15 on the back of off take by BCPL.

Attractively Valued despite Rally

We increase our EPS estimates for FY14 by 8% and FY15 by 18% to Rs. 69 and Rs. 74 resp. We have accounted for under recovery for diesel at Rs. 4.5/ltr and Rs 3/ltr in FY14 and FY15 resp. We have assumed gas price hike of $ 1.5/mmbtu in FY15. We upgrade our target price by 6.5% to 650 at 9.3x FY14 and reiterate **BUY** on the stock.

Key Financials

Y/E Mar (Rs mn)	FY11	FY12	FY13	FY14E	FY15E
Net Sales	86,114	98,632	99,476	108,569	113,114
EBIDTA	46,032	46,747	46,147	54,491	58,672
EBITDA Margin (%)	53.5	47.4	46.4	50.2	51.9
Net Profit	28,876	34,469	35,893	41,843	44,792
PAT Margin (%)	33.5	34.9	36.1	38.5	39.6
EPS (Rs)	48.0	57.3	59.7	69.6	74.5
PER (x)	11.5	9.7	9.3	8.0	7.4
P/BV (x)	0.9	0.8	0.7	0.6	0.5

Source: Company, Karvy Institutional Research

Recommendation

CMP:	Rs554
Target Price:	Rs650
Upside (%)	17%

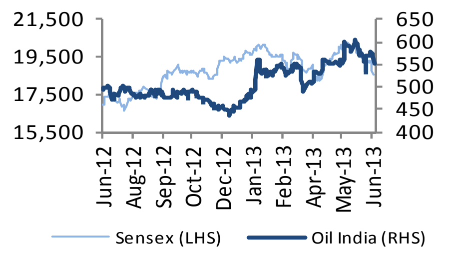
Stock Information

Market Cap. (Rs bn / US$ mn)	333/5,577
52-week High/Low (Rs)	630/432
3m ADV (Rs mn /US$ mn)	336/5.6
Beta	0.6
Sensex/ Nifty	18,541/5,590
Share outstanding (mn)	601

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	(4.3)	13.6	12.8	18.9
Rel. to Sensex	1.7	14.8	3.3	24.6

Performance



Source: Bloomberg

Analysts Contact

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Valuation Analysis

Basis for Assumptions

Net realizations on a rise as under recoveries trim

We have assumed an increase of net realization from Rs 2915/bl to Rs. 3250/bl in FY14 and Rs. 3132/bl in FY15. We have assumed crude oil price at $ 105 in FY14 and $ 100 in FY15 whereas rupee assumption lies at 54 and 52. The under recoveries are expected to come down from Rs 1610bn in FY13 to 1140 bn in FY14 and Rs. 970 bn in FY15. We expect upstream share of subsidy burden at 39% (higher than 37.3% in FY13). We have only assumed Rs 2/ltr hike in FY14. Further hikes in line with deregulating diesel could be an upside.

Impact of falling rupee

The rupee has come down to 59 as against our assumption of 54. We expect a reduction in EPS by Rs 1.2/share for depreciation by a rupee. If rupee stabilizes at 58 the EPS is likely to come down to Rs. 64 visavis our assumption of Rs 69.6. Still the valuation arrives at 610 at 9.5x.

Gas price Hike assumed from FY15

Rangarajan committee recommendations are more likely to be accepted as per the Media reports as the note as been passed to the cabinet. The price recommended by the Oil ministry is $6.7/mmbtu. We have assumed both the upstream companies to benefit to the extent of $1.5/mmbtu. This leaves an upside of $ 1/mmbtu to our assumptions. The Rangarajan committee is keen to imply price hike for PSUs in FY14 itself. Weaker rupee could add to the realization. Each $/mmbtu increase is resulting in EPS accretion of Rs. 4.5/shr.

Volume expected to be under pressure

We expect Oil output to reduce marginally at 3.57 MMT and stay flat in FY15, whereas gas is expected to improve by 0.1 and 0.2 BCM in FY14 and FY15.

Price performance and Valuation Analysis

The stock has been a market performer and relative outperformer amongst Oil PSUs since our BUY recommendation. High valuation gap relative to ONGC and its historical multiples resulted into the rerating of the stock in past few months.

The valuation still seems to be attractive at 8.1x as against its historical valuation of 9.5x and ONGC's historical valuation of 10x. The stock has the potential to rerate beyond our targets if the diesel price hikes of Rs 0.5 are regular and gas price realization is higher and earlier. Strengthening of Rupee could be a further trigger.

We reiterate our BUY rating on the stock with a revised target price of Rs. 650 (Rs. 610 earlier) as we upgrade our FY14 EPS by 8% to 69.6 and by 18% to 74 in FY15. We have valued the stock at 9.3x FY14E.

Downside Risks

- No further diesel price hikes
- No gas price hike
- Rupee stabilizing weaker

Financials

Exhibit 1: Profit & Loss Statement

Y/E Mar (Rs mn)	FY11	FY12	FY13	FY14E	FY15E
Total operating income	**86,114**	**98,632**	**99,476**	**108,569**	**113,114**
Total Expenditure	40,082	51,886	53,329	54,079	54,442
EBITDA	**46,032**	**46,747**	**46,147**	**54,491**	**58,672**
Recoup cost	12,139	10,088	8,377	9,201	9,201
EBIT	**33,893**	**36,658**	**37,771**	**45,289**	**49,470**
Interest & other Charges	139	94	26	-	-
Other Income	9,377	14,454	15,088	16,300	16,460
Recurring PBT	**43,131**	**51,018**	**52,832**	**61,589**	**65,930**
Current Tax	14,255	16,549	16,939	19,747	21,138
PAT (reported)	**28,876**	**34,469**	**35,893**	**41,843**	**44,792**
EPS	**48.0**	**57.4**	**59.7**	**69.6**	**74.5**

Source: Company, Karvy Institutional Research

Exhibit 2: Balance Sheet

Y/E Mar (Rs mn)	FY11	FY12	FY13	FY14E	FY15E
Equity Share Capital	2,405	2,405	6,011	6,011	6,011
Reserves& Surplus	153,614	174,809	186,103	212,638	241,044
Shareholders Funds	**156,019**	**177,213**	**192,114**	**218,650**	**247,055**
Total Loans	10,267	3,500	10,578	-	-
Net Deferred Tax Liability	11,490	10,767	12,186	12,186	12,186
Well abandonment sinking fund	1,645	1,645	1,645	1,645	1,645
Total Liabilities	**179,421**	**193,125**	**216,523**	**232,481**	**260,887**
Gross Block F. Assets	33,203	35,447	40,832	45,343	49,843
Less: Acc. Depreciation	23,306	24,815	26,415	28,031	29,663
Net Block	**9,897**	**10,631**	**14,417**	**17,311**	**20,179**
Capital Work-in-Progress	4,484	5,106	2,625	3,895	3,895
Gross Cost Prod Properties	60,674	66,072	79,427	92,384	106,147
Less:Depletion	28,088	31,720	35,734	39,788	43,882
Net Cost	32,586	34,352	43,693	52,596	62,265
Pre Producing Properties	8,757	10,526	6,893	16,059	17,575
Investments	**8,904**	**26,142**	**18,571**	**18,571**	**18,571**
Inventories	5,004	5,333	6,443	6,534	6,578
Sundry Debtors	2,495	3,499	9,027	10,548	10,524
Cash	117,693	109,355	121,329	115,858	131,387
Loans & Advances	18,070	19,078	18,855	18,855	18,855
Other	4,747	7,019	9,944	9,944	9,944
Creditors	20,996	23,151	17,086	17,326	17,442
provisions	1,655	2,156	5,058	5,058	5,058
Net Current Assets	**114,793**	**106,368**	**130,325**	**124,049**	**138,402**
Total Assets	**179,421**	**193,125**	**216,523**	**232,481**	**260,887**

Source: Company, Karvy Institutional Research

Exhibit 3: Cash Flow Statement

Y/E Mar (Rs mn)	FY11	FY12	FY13	FY14E	FY15E
EBIT	33,893	36,658	37,771	45,289	49,470
(Inc)/Dec in working capital	6,459	(1,958)	(12,504)	(1,371)	96
Cash flow from operations	40,352	34,700	25,267	43,918	49,566
Other income	9,377	14,454	15,088	16,300	16,460
Provisions& Other Adj	3,339	(1,388)	(6,443)	-	-
Depreciation	4,781	5,142	5,614	5,670	5,727
Interest paid	(139)	(94)	(26)	-	-
Dividends paid	(9,550)	(10,564)	(12,610)	(13,131)	(15,307)
Tax paid	(14,255)	(16,549)	(16,939)	(19,747)	(21,138)
Net cash from operations	33,906	25,701	9,951	33,011	35,308
Capital expenditure	(11,225)	(10,034)	(12,626)	(27,904)	(19,779)
Free Cash Flows	22,681	15,667	(2,675)	5,107	15,529
Inc/(Dec) in ST borrowing	9,892	(6,767)	7,078	(10,578)	-
(Inc)/Dec in investments	(310)	(17,238)	7,571	-	-
Cash from financial activities	9,582	(24,005)	14,649	(10,578)	-
Net Change In Cash	32,264	(8,338)	11,974	(5,471)	15,529
Opening Cash	85,429	117,693	109,355	121,329	115,858
Closing Cash	117,693	109,355	121,329	115,858	131,387

Source: Company, Karvy Institutional Research

Exhibit 4: Key Ratios

Y/E Mar	FY11	FY12	FY13	FY14E	FY15E
Valuation Ratio (x)					
P/E (on FDEPS)	4.6	3.9	9.3	8.0	7.4
P/CEPS	3.2	3.0	3.0	2.6	2.5
P/BV	0.9	0.8	0.7	0.6	0.5
EV/Sales	2.6	2.3	2.2	2.0	1.8
EV/EBITDA	4.9	4.9	4.8	4.0	3.4
Returns (%)					
ROCE (Pre-tax)	16.1	17.9	16.6	17.9	17.1
ROE	18.5	19.5	18.7	19.1	18.1
Turnover ratios (x)					
Asset Turnover (Gross Block)	2.5	2.7	2.4	2.6	2.3
Inventory / Sales (days)	21.8	20.5	24.4	20.5	20.7
Receivables (days)	10.9	13.4	34.2	33.1	33.1
Payables (days)	191.2	162.9	116.9	116.9	116.9
Solvency ratios (x)					
Net debt to equity	(0.7)	(0.6)	(0.6)	(0.5)	(0.5)
Net debt to EBITDA	(2.3)	(2.3)	(2.4)	(2.1)	(2.2)

Source: Company, Karvy Institutional Research

Cairn India

Institutional Equities
India Research

COMPANY UPDATE

Bloomberg: CAIR IN
Reuters: CAIL.BO

HOLD

Volumes under pressure; Optimistic Guidance

Cairn has guided optimistic volumes for FY14 with an expectation of commencement of Aishwarya fields; ramping up of Bhagyam fields to the approved peak of 40000 bopd and commencement of production from Barmer hill formation. We have factored these as well as all the potential resources in our assumptions. Softening crude oil price outlook is expected to keep the valuations under pressure.

Softening crude oil price to keep earnings under check

Weakening macro scenario in the European, Asia Pacific and emerging countries is likely to restrict crude oil price at current levels and correct going forward. Our sensitivity analysis indicates Rs 15 /shr variation to every $5/bl movement in crude oil price. Weakening rupee is likely to avert dip in the valuation to a certain extent. Our impact analysis suggests Rs. 5/share variation to every rupee increase. At crude oil price of $105/bl and rupee of 58 the valuation arrives at Rs. 390/share.

Management guidance optimistic for FY14 and FY15

Management is optimistic as reservoir issues with Bhagyam fields have been sorted out and it is expected to ramp up to its approved rate of 40000 bopd from 19000 bopd in 2HFY14. Aishwarya fields is expected to ramp up in few months as production has started. Development plan for Barmer hill has been submitted and the production is expected to commence in this financial year. The pipeline has been debottlenecked to carry higher volumes. Management is guiding to achieve production rate of 200000-215000 bopd in FY14 from Mangala, Bhagyam, Aishwarya and Barmer Formations

Our valuation factors these developments

We have assumed peak rate of 210000-215000 bopd from MBA fields for our earning assumptions. Based on long term assumption of crude at $ 100/bl and Rs 54/$ we reiterate our target price of Rs.320 and maintain **HOLD** on the stock as we have factored in all the resources. Our valuation arrives at EV/BOE multiple of 9.5$/bl on Rajasthan resources.

Key Financials

Y/E Mar (Rs mn)	FY11	FY12	FY13	FY14E	FY15E
Net Sales	102,779	118,607	175,241	188,626	187,677
EBIDTA	84,117	95,532	134,880	141,381	134,955
EBITDA Margin(%)	81.8	80.5	77.0	75.0	71.9
Net Profit	63,344	79,377	119,197	112,715	104,763
EPS (Rs)	33.3	41.7	62.7	59.3	55.1
PER (x)	8.5	6.8	4.5	4.8	5.1
P/BV	1.3	1.1	1.1	0.9	0.8
EV/EBIDTA (x)	6.2	4.9	3.6	3.0	2.5

Source: Company, Karvy Institutional Research

Recommendation

CMP:	Rs284
Target Price:	Rs320
Upside (%)	13%

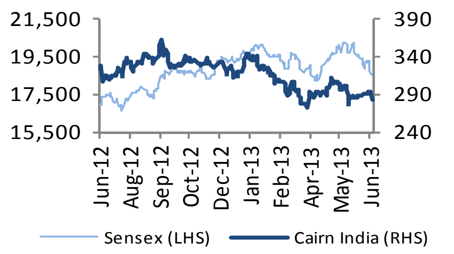
Stock Information

Market Cap. (Rs bn / US$ mn)	541/9,070
52-week High/Low (Rs)	367/268
3m ADV (Rs mn /US$ mn)	704/11.8
Beta	0.9
Sensex/ Nifty	18,541/5,590
Share outstanding (mn)	1,910

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	0.2	2.2	(13.1)	(11.2)
Rel. to Sensex	6.5	3.3	(20.4)	(6.9)

Performance



Source: Bloomberg

Analysts Contact

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Valuation Analysis

Basis for Assumptions

Crude Oil Price Expected to Soften

We expect Crude oil price to stabilize at $100 by FY15 due to slowdown in the economies of the major consumers, and rupee to stabilize at 54.

Volume Visibility limited till 220000 bopd

Currently the pipeline capacity is limited to 175000 bopd which is being debottlenecked to 210000 using DRAs. The Mangala, Bhagyam and Aishwarya fields are expected to be peak out at 150000, 40000 and 20000 bopd respectively. The valuations of MBA fields have been benchmarked for rest of the fields.

Earnings expected to be under Pressure

As volumes peak out at MBA fields whereas Crude and rupee softens, we expect the earnings to be under pressure. The Bhagyam fields are expected to ramp up optimally by second half of FY14 and Aishwarya will ramp up till 10000 bopd by end of this fiscal.

Price performance and Valuation Analysis

Cairn India has underperformed markets YTD on account of reservoir issues in Bhagyam fields, resulting in a decline in the output. Besides, there was no significant accretion to the proved and probable reserves in the Cairn's portfolio of resources. The reduction in crude oil price further depleted the valuation. We don't expect crude oil price to stabilize higher based on the global macro scenario. The resources have been largely factored in the valuations.

Our SOTP Valuation arrives at Rs 320 /share at $9.5/bl EV/BOE assuming crude to stabilize at $100 and Rupee at 54 factoring all the potential fields.

Upside Risks

- Significant Accretion to the Resources in Rajasthan
- Crude Oil Price and Rupee stabilizing higher than $110/bl and 56 respectively

Exhibit 1: SOTP Valuation

SOTP	Per shr
MBA (DCF)	188
Ravva/CB	5
Barmer Hills	12
Other exploratory upsides	32
Total EV	**237**
Net Debt(Inclusive of Investments)	-83
Equity Value	**320**

Source: Karvy Institutional Research

Financials

Exhibit 2: Profit & Loss Statement

Y/E Mar (Rs mn)	FY11	FY12	FY13	FY14E	FY15E
Net revenues	102,779	118,607	175,241	188,626	187,677
Operating expenses	18,662	23,074	40,361	47,245	52,722
EBIDTA	84,117	95,532	134,880	141,381	134,955
Other income	1,288	9,380	10,362	10,362	10,362
Interest	2,909	2,258	687	2,230	2,230
Depreciation	13,596	17,391	23,008	24,274	26,684
Amortization of goodwill	0	(1,029)	0	0	0
Profit Before Tax	68,900	86,292	121,548	125,239	116,404
Provision for tax	5,556	6,914	2,351	12,524	11,640
Adjusted Net Profit	63,344	79,377	119,197	112,715	104,763
EPS	33	42	63	59	55

Source: Company, Karvy Institutional Research

Exhibit 3: Balance Sheet

Y/E Mar (Rs mn)	FY11	FY12	FY13	FY14E	FY15E
Equity Share Capital	19,019	19,073	19,102	19,020	19,020
Reserves& Surplus	383,913	463,846	457,892	570,607	675,371
Shareholders Funds	**402,932**	**482,919**	**476,994**	**589,627**	**694,391**
Total Loans	26,782	-	-	-	-
Deferred Tax Liability	5,612	6,737	4,640	4,640	4,640
Total Liabilities	**435,326**	**489,656**	**481,636**	**594,267**	**699,031**
Gross Block	93,000	110,466	158,266	200,826	243,386
Less: Acc. Depreciation	12,888	21,190	39,649	60,523	83,797
Net Block	**80,085**	**89,276**	**118,617**	**140,303**	**159,589**
Capital Work-in-Progress	39,819	45,000	19,390	70,000	70,010
Goodwill	253,193	253,414	151,744	151,744	151,744
Investments	**10,944**	**18,355**	**103,823**	**103,823**	**103,823**
Current Assets	**79,609**	**128,372**	**146,439**	**194,197**	**279,664**
Cash &Deposits	44,847	70,135	55,568	133,345	218,937
Loans & Advances	16,269	33,763	58,877	33,754	33,754
Inventories	3,277	1,360	1,961	2,111	2,100
Debtors	14,829	14,960	22,852	24,597	24,474
Others	386	8,153	7,182	390	400
Current liabilities	**29,266**	**44,755**	**58,377**	**65,798**	**65,798**
Creditors	12,638	24,821	17,399	24,820	24,820
Provisions	16,628	19,936	40,978	40,978	40,978
Net Current Assets	**50,342**	**83,614**	**88,062**	**128,399**	**213,866**
Mis. Exp. not written off	943	-	-	-	-
Total Assets	**435,326**	**489,656**	**481,636**	**594,267**	**699,031**

Source: Company, Karvy Institutional Research

Exhibit 4: Cash Flow Statement

Y/E Mar (Rs mn)	FY11	FY12	FY13	FY14E	FY15E
EBIT	**71,809**	**86,493**	**122,235**	**127,469**	**118,634**
Depreciation	11,930	14,403	18,459	20,874	23,274
Change in Working Capital	(13,628)	(7,013)	(12,224)	37,431	524
Less: Other income	(1,288)	(9,380)	(10,362)	(10,362)	(10,362)
Direct taxes paid	(5,556)	(4,857)	(2,351)	(12,524)	(11,640)
Others	2,909	2,258	687		
Other Provisions and Dividend	9,328	(4,472)	(6,842)		
Cash Flow from Operations	**72,595**	**75,174**	**108,914**	**162,887**	**120,429**
(Inc.)/ Dec. in Fixed Assets	(33,962)	(22,869)	(22,190)	(93,160)	(42,970)
(Inc.)/ Dec. in Investments	6,180	(7,411)	(85,468)	-	-
Other income	1,288	9,380	10,362	10,362	10,362
Cash Flow from Investing	**(26,494)**	**(20,899)**	**(97,295)**	**(82,798)**	**(32,608)**
Issue of Equity	(415)	54	29	(82)	-
Inc./(Dec.) in loans	(7,225)	(26,782)	-	-	-
Interest and Dividend Paid	(2,909)	(2,258)	(26,215)	(2,230)	(2,230)
Cash Flow from Financing	**(10,548)**	**(28,986)**	**(26,186)**	**(2,312)**	**(2,230)**
Inc./(Dec.) in Cash	35,553	25,288	(14,567)	77,777	85,591
Opening Cash balances	**9,294**	**44,847**	**70,135**	**55,568**	**133,345**
Closing Cash balances	**44,847**	**70,135**	**55,568**	**133,345**	**218,937**

Source: Company, Karvy Institutional Research

Exhibit 5: Key Ratios

Y/E Mar	FY11	FY12	FY13	FY14E	FY15E
Valuation Ratio (x)					
P/E (on FDEPS)	8.5	6.8	4.5	4.8	5.2
P/BV	1.3	1.1	1.1	0.9	0.8
EV/Sales	5.1	3.4	2.8	2.3	1.8
EV/EBITDA	6.2	4.9	3.6	3.0	2.5
EV/Total Assets	1.2	1.0	1.0	0.7	0.5
Returns (%)					
ROCE (Pre-tax)	17.4	16.9	23.0	21.8	16.7
ROE	17.1	17.9	25.1	21.1	16.3
Turnover ratios (x)					
Asset Turnover (Gross Block)	0.5	0.3	0.3	0.3	0.2
Inventory / Sales (days)	11.0	7.1	3.5	3.9	4.1
Receivables (days)	31.8	45.8	39.4	45.9	47.7
Payables (days)	220.1	296.3	190.9	163.1	171.8
Solvency ratios (x)					
Net debt to equity	(0.0)	(0.1)	(0.1)	(0.2)	(0.3)
Net debt to EBITDA	(0.2)	(0.7)	(0.4)	(0.8)	(1.5)
Interest Coverage (EBIT/Interest)	24.2	34.6	163.0	52.5	48.6

Source: Company, Karvy Institutional Research

KARVY STOCK BROKING

Institutional Equities
India Research

Oil & Gas **June 25, 2013**

Reliance Inds.

COMPANY UPDATE

Bloomberg: RIL IN
Reuters: RELI.BO

HOLD

Core Biz lacks Triggers; Uncertainty Prevails in E&P

RIL is expected to be more core biz centric on the valuation front as upstream uncertainties mount up. Domestic gas price is likely to improve sentiment; however production is unlikely to get a boost soon. We are positive on a gas price hike from FY14 to $6.7/mmbtu, which is reportedly not rewarding enough to develop additional high cost deepwater resources in KG basin. Thus there is no near term visibility on volume ramp up from Eastern offshore basins awaiting regulatory clearances.

Margins in Core Biz Expected to be under pressure

We expect both the refining and the petchem margins to be under pressure in the next couple of years on account of global headwinds, especially in the developed economies. The Heavy Light spread is expected to be narrow as incremental crude supplies are likely to be contributed more by lighter crude from Non Opec regions. The Asian GRMs have been under pressure since last 8-10 quarters. Incremental complex refineries in the Asian Region will pressurize the margins further. The petchem margins are expected to stabilize at current levels

Upstream business; pricing in all the potential

We have accounted for all the potential resources in KG basin despite regulatory and pricing uncertainties. Even though the quantum of price hike meets their requirement, they will need further time to develop those deep water blocks. We have expected a gas price hike of $ 2.5/mmbtu factoring in potential resources of 10TCF (KG D6 2TCF) at EV/BOE of $5.

Valuation & Outlook

We expect GRMs to stabilize at $9/bl and the upstream volumes to be restored until ~30 mmscmd in next 3-4 years. Although high on cash, the untapped potential in KG basin is subject to many caveats, and thus too early to price in. The new ventures being planned are in nascent stage to be valued. We believe the stock is fairly valued at 11xFY15E and we assign a **HOLD** rating on the stock with a target price of Rs. 800.

Key Financials

(Rs mn)	FY11	FY12	FY13	FY14E	FY15E
Operating income	2,514,130	3,307,760	3,636,140	3,445,279	3,190,619
EBITDA	381,260	336,190	307,870	329,747	348,753
EBITDA margin (%)	15.2	10.2	8.5	9.6	10.9
PAT	202,860	200,400	210,030	224,675	237,107
EPS (Rs)	62.0	61.3	64.2	68.7	72.5
P/E (x)	12.8	13.0	12.4	11.6	11.0
EV/EBITDA (x)	7.8	8.3	8.6	7.9	7.0
EV/Sales (x)	1.2	0.8	0.7	0.8	0.8

Source: Company, Karvy Institutional Research

Recommendation

CMP:	Rs793
Target Price:	Rs800
Upside (%)	1%

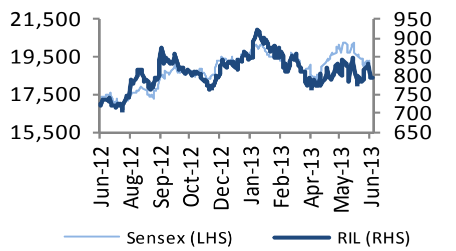
Stock Information

Market Cap. (Rs bn / US$ mn)	2,560/42,878
52-week High/Low (Rs)	955/682
3m ADV (Rs mn /US$ mn)	3,031/50.8
Beta	1.1
Sensex/ Nifty	18,541/5,590
Share outstanding (mn)	3,229

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	0.8	(2.2)	11.5	(5.6)
Rel. to Sensex	7.1	(1.2)	2.1	(1.1)

Performance



Source: Bloomberg

Analysts Contact

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Valuation Analysis

Basis for Assumptions

Margins expected to be under pressure

We expect GRMs to stabilize at $ 9/bl by FY15 as higher number of complex refineries commission in the Asia Pacific Region. The cracks are expected to be under pressure due to weak global scenario. The petchem cracks are also expected to stabilize at current levels. Softening crude oil price is expected to further narrow the spread. The Heavy –Light Spread is unlikely to widen beyond $ 3-4/bl.

Upstream Production unlikely to restore immediately; Factoring in Gas price Hike to $6.7/mmbtu

We have expected a production of 14mmscmd in FY14 from KGD6 and 16 mmsmcd in FY15. The Oil production is expected to stabilize at 7500 bopd. We have assumed gas price till $ 6.7/mmbtu, although not in line with what RIL is demanding from the government.

Factoring in all the potential resources

We have factored in resources of 1.5 tcf in KGD6 (D1 and D3), Satellite discoveries at 2.2 TCF and other potential resources at ~2 TCF. We have valued them at EV/BOE of 5x. The shale Gas ventures contributes substantially to the valuation. The production visibility from satellite and other potential fields in KG basin is not expected before 2016-17 to the tune of 10-15 mmscmd. Overall volumes are expected to restore to more than 30 mmscmd only in a span of 3-4 years.

Price performance and Valuation Analysis

The stock has been an under performer on the back of regulatory headwinds in approving a Gas price hike, based on which the extent of deepwater exploratory activities is to be determined. RIL had a difficult time in getting approvals for FDP of satellite fields. We believe that the stock is fairly valued at 11x FY15E with an ROE of 10-11%, with a lack of volume visibility. Petchem expansions are other ventures are expected to contribute post FY15. We assign HOLD rating with a target price of Rs 800 on the stock based on SOTP method.

Exhibit 1: SOTP Valuation

Refining; EV/EBITDA(2010-11) 6x	**282**
Petrochemical-EV/EBITDA(2010-11) 6x	185
KGD6, Satellite fields and Others(EV/BOE 5x)	108
Shale Gas ventures((EV/Boe 3.5x)	68
Retail (Book Value)	16
Treasury	56
Total	**715**
Less-Debt(FY14)	167
Add-Cash(FY14)	251
Target Price	**800**

Source: Karvy Institutional Research

Financials (Standalone)

Exhibit 2: Profit & Loss Statement

Y/E Mar (Rsmn)	FY11	FY12	FY13	FY14E	FY15E
Total operating income	**2,514,130**	**3,307,760**	**3,636,140**	**3,445,279**	**3,190,619**
Raw material and purchases	1,946,980	2,762,550	3,066,290	2,856,068	2,581,445
Operating Expenditure	185,890	209,020	261,980	259,464	260,421
Total Expenditure	**2,132,870**	**2,971,570**	**3,328,270**	**3,115,532**	**2,841,866**
EBITDA	**381,260**	**336,190**	**307,870**	**329,747**	**348,753**
Depreciation& Amortisation	136,080	113,940	94,650	87,581	90,443
EBIT	**245,180**	**222,250**	**213,220**	**242,166**	**258,311**
Interest & other Charges	23,280	26,670	30,360	30,360	30,360
Other Income	30,520	61,920	79,980	79,980	79,980
Recurring PBT	**252,420**	**257,500**	**262,840**	**291,786**	**307,931**
Tax	49,560	57,100	52,810	67,111	70,824
Recurring PAT	**202,860**	**200,400**	**210,030**	**224,675**	**237,107**
Basic EPS (Rs)	62.02	61.27	64.21	68.69	72.49

Source: Company, Karvy Institutional Research

Exhibit 3: Balance Sheet

Y/E Mar (Rsmn)	FY11	FY12	FY13	FY14E	FY15E
Equity Share Capital	32,730	32,710	32,540	32,710	32,710
Reserves& Surplus	1,482,760	1,628,250	1,767,660	1,933,457	2,108,415
Shareholders Funds	1,515,490	1,660,960	1,800,200	1,966,167	2,141,125
Total Loans	634,280	586,270	545,230	545,230	545,230
Deferred Tax Liability	115,620	121,220	121,930	121,930	121,930
Total Liabilities	**2,265,390**	**2,368,450**	**2,467,360**	**2,633,327**	**2,808,287**
Gross block	2,307,210	2,095,520	2,195,967	2,224,930	2,324,930
less depreciation	785,450	917,700	1,012,350	1,099,931	1,190,374
Net block	**1,521,760**	**1,177,820**	**1,183,617**	**1,124,999**	**1,134,556**
Capital work in progress	27,590	36,950	105,023	165,200	165,201
Investments	376,520	540,080	525,090	525,090	525,090
sundry debtors	174,420	184,240	118,800	235,978	218,536
Stores and spare parts/inventory	298,250	359,550	427,290	424,760	393,364
cash and bank balances	271,350	395,980	495,470	553,816	715,861
other current assets	1,990	2,490	4,800	4,800	4,800
loans and advances	175,310	254,290	325,020	325,020	325,020
Total Current assets,loans and advances	**921,320**	**1,196,550**	**1,371,380**	**1,544,375**	**1,657,580**
Current liabilities	535,790	540,370	674,270	682,856	630,661
Provisions	46,010.00	42,580.00	43,480	43,480	43,480
Total current liabilities and provisions	**581,800**	**582,950**	**717,750**	**726,336**	**674,141**
Net current assets excluding Cash (current assets- current liabilities)	**68,170**	**217,620**	**158,160**	**264,222**	**267,579**
Total	**2,265,390**	**2,368,450**	**2,467,360**	**2,633,327**	**2,808,287**

Source: Company, Karvy Institutional Research

Exhibit 4: Cash Flow Statement

Y/E Mar (Rsmn)	FY11	FY12	FY13	FY14E	FY15E
EBIT	245,180	222,250	213,220	242,166	258,311
Add- Depreciation	136,080	113,940	94,650	87,581	90,443
Add- Change in Working Capital	16,846	(149,450)	59,460	(106,062)	(3,355)
Less: Other Provisions	5,113.60	3,300	17,846	-	-
Add - Direct taxes paid	(49,560)	(57,100)	(52,810)	(67,111)	(70,824)
Cash Flow from Operations	**343,433**	**126,340**	**296,674**	**156,574**	**274,574**
(Inc.)/ Dec. in Fixed Assets	(54,765)	202,330	(168,520)	(89,140)	(100,001)
(Inc.)/ Dec. in Investments	(144,234)	(163,560)	14,990	-	-
Other income	30,520	61,920	79,980	79,980	79,980
Cash Flow from Investing	**(168,479)**	**100,690**	**(73,550)**	**(9,160)**	**(20,021)**
Issue of Equity	26		(170)	170	-
Inc./(Dec.) in loans	9,333	(48,010)	(41,040)	-	-
Dividend Paid (Incl. Tax)	(24,310.00)	(27,720.00)	(52,064)	(58,878)	(62,149)
Interest Paid	(23,280)	(26,670)	(30,360)	(30,360)	(30,360)
Cash Flow from Financing	**(38,231)**	**(102,400)**	**(123,634)**	**(89,068)**	**(92,509)**
Inc./(Dec.) in Cash	136,724	124,630	99,490	58,346	162,044
Opening Cash balances	134,627	271,350	395,980	495,470	553,816
Closing Cash balances	**271,350**	**395,980**	**495,470**	**553,816**	**715,861**

Source: Company, Karvy Institutional Research

Exhibit 5: Key Ratios

Y/E Mar	FY11	FY12	FY13	FY14E	FY15E
Valuation Ratio (x)					
P/E (on FDEPS)	12.80	12.96	12.37	11.56	10.95
P/BV	1.71	1.56	1.44	1.32	1.21
EV/Sales	1.18	0.84	0.73	0.75	0.76
EV/EBITDA	7.77	8.30	8.60	7.86	6.96
EV/Total Assets	1.31	1.18	1.07	0.98	0.86
ROCE (Pre-tax)	11.22	9.59	8.82	9.50	9.49
ROE	14.05	12.62	12.14	11.93	11.55
Turnover ratios (x)					
Asset Turnover (Gross Block)	1.13	1.50	1.69	1.56	1.40
Inventory / Sales (days)	41.24	47.75	57.12	61.85	59.39
Receivables (days)	21.13	26.04	22.00	25.75	32.99
Payables (days)	65.64	78.12	88.17	98.51	95.35
Working capital cycle (ex-cash) (days)	-18.35	-27.70	-37.43	-45.51	-53.56
Solvency ratios (x)					
Net debt to equity	0.24	0.11	0.03	0.00	-0.08
Net debt to EBITDA	0.95	0.57	0.16	-0.03	-0.49
Interest Coverage (EBIT/Interest)	10.53	8.33	7.02	7.98	8.51

Source: Company, Karvy Institutional Research

GAIL

Institutional Equities
India Research

COMPANY UPDATE

Bloomberg: GAIL IN
Reuters: GAIL.BO

HOLD

Volumes Woes Continues; Gas Price Hike could be a further Dampener

The reduction in volumes from KGD6 has reduced the transmission volumes to 99 mmscmd from 120 mmscmd. Incremental production from fields of ONGC and Dahej and Kochi terminal expansions are not expected o fetch significant volumes for GAIL in next couple of years. Besides, probable domestic gas price hike is expected to shrink Petchem and LPG margins and negate increase in profitability due to reduction in subsidy burden and petchem expansion.

Lack of Core demand puts Volumes under Pressure

Gail India has been primarily meeting demand for core sectors through its pipelines from the domestic fields of Mumbai and KG Offshore. However, as the domestic gas production weakens in the next few years, transmission volumes of Gail India is expected to be under pressure. The demand from noncore sectors is unlikely to make a meaningful chunk of volumes for an existing capacity of 200 mmscmd and upcoming capacity of 220 mmscmd.

Margins likely to be under Pressure

Softening crude oil price is expected to trim petchem and LPG, LH realizations. Any price hike in the domestic gas is expected to shrink the margins further as LPG extraction and polymer units use domestic gas for extraction. We expect a contraction of Rs. 1.5 in the EPS per $/mmbtu increase in the gas price. This would negate the positive impact of softening under recoveries and expansion at PATA.

Valuations although Cheap; to remain under Pressure

The volumes are expected to stay lull until there is a substantial increase in the domestic production and some drastic reforms within the core segment users (Power and Fertilizer). The margins are expected to shrink as the trading margins are at peak and petchem and LPG margins are likely to be under pressure as domestic gas price gets hiked. We expect ROEs to dilute as operating rates of pipelines get lower and margins shrink. We reiterate our **HOLD** rating on the stock with a revised TP of Rs 329 at 9x FY15E.

Key Financials

Y/E Mar (Rsmn)	FY11	FY12	FY13	FY14E	FY15E
Operating income	351,067	446,799	511,522	536,436	640,234
EBITDA	64,970	72,800	74,846	78,550	80,428
EBITDA margin (%)	19.5	16.3	14.6	14.6	12.6
PAT	40,210	44,008	43,167	45,446	45,535
EPS (Rs)	31.7	34.7	34.5	35.8	35.9
P/E (x)	9.0	8.2	8.3	8.0	7.9
EV/EBITDA (x)	6.2	6.2	6.6	6.5	6.2
EV/Sales (x)	1.2	1.0	1.0	0.9	0.8

Source: Company, Karvy Institutional Research

Recommendation

CMP:	Rs285
Target Price:	Rs329
Upside (%)	15%

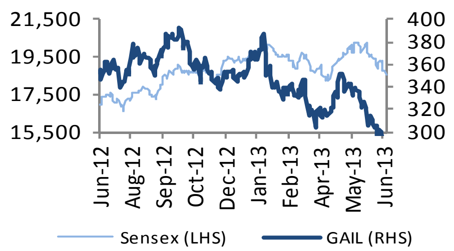
Stock Information

Market Cap. (Rs bn / US$ mn)	362/6,061
52-week High/Low (Rs)	397/276
3m ADV (Rs mn /US$ mn)	332/5.6
Beta	0.8
Sensex/ Nifty	18,541/5,590
Share outstanding (mn)	1,268

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	(11.4)	(10.6)	(16.3)	(20)
Rel. to Sensex	(5.8)	(9.7)	(23.3)	(16.2)

Performance



Source: Bloomberg

Analysts Contact

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Basis for Assumptions

Transmission Volumes expected to be under pressure

We expect incremental Natural Gas transmission volumes of 3 mmscmd and 5 mmscmd in FY14 and FY15 respectively as Shell's Hazira Terminal ramp up and ONGC produces from its Marginal fields in Western offshore. The transmission capacity is expected to increase from 200 mmscmd to ~320 mmscmd.

Gas price expected to hiked to $6.7/mmbtu

We expect margins of LP, LH and PEtchem segment to come down as the gas price is expected to be increase by $ 2-2.5/mmbtu (as per Rangarajan Committee recommendations).

Subsidy burden to reduce and Polymer/LP/LH volumes to remain upbeat

The Polymer expansion from 0.45 to 0.9 mtpa is expected to be completed by end of this financial year. The subsidy burden is expected to reduce to Rs. 22 bn in FY14 and 19 bn in FY15. However hike in domestic gas price and lower LPG/LH/Polymer realizations on the back of softening crude oil price is expected to keep the operating margins of these segments under pressure.

Price performance and Valuation Analysis

Gail India has underperformed Sensex significantly in last one year on account of drop in KGD6 output by ~40 mmscmd , and no significant addition in the volumes from alternative resources. Anticipation over gas price hike dented the valuations further. We don't expect things to change drastically in near term. Gas price hike is unlikely to result into higher volumes before 2-3 years. The immediate impact will be seen on the margins of other businesses. Our SOTP valuation arrives at Rs. 329/share and we reiterate our HOLD recommendation on the stock as the valuations have bottomed out and margin of safety is higher.

Upside Risks

- Gail India being withdrawn from subsidy sharing
- Domestic gas price remaining status quo

Exhibit 1: SOTP Valuation

Transmission(NG) (EV/EBITDA 5x)	**142**
Natural gas Trading (EV/EBITDA 7x)	96
Petrochemicals (EV/EBITDA 6x)	139
Other Investments(Market Value)	67
Total EV	**444**
Net Debt	115
Equity Value	**329**

Source: Karvy Institutional Research

Financials

Exhibit 2: Profit & Loss Statement

Y/E Mar (Rsmn)	FY11	FY12	FY13	FY14E	FY15E
Total operating income	**351,067**	**446,799**	**511,522**	**536,436**	**640,234**
Total Expenditure	**286,097**	**373,999**	**436,677**	**457,886**	**559,806**
EBITDA	**64,970**	**72,800**	**74,846**	**78,550**	**80,428**
Depreciation& Amortisation	8,880	10,406	13,187	14,776	16,684
EBIT	**56,090**	**62,394**	**61,659**	**63,773**	**63,744**
Interest & other Charges	3,779	3,664	4,373	5,234	5,073
Other Income	5,574	4,819	8,293	8,293	8,293
accretion to stock	1,331	4,978	-	-	-
PBT (reported)	**57,990**	**63,548**	**65,578**	**66,832**	**66,964**
Tax	18,181	19,540	22,412	21,386	21,428
Recurring PAT	**40,210**	**44,008**	**43,167**	**45,446**	**45,535**
EPS	31.70	34.69	34.48	35.83	35.90

Source: Company, Karvy Institutional Research

Exhibit 3: Balance Sheet

Y/E Mar (Rsmn)	FY11	FY12	FY13	FY14E	FY15E
Equity Share Capital	12,685	12,685	12,685	12,685	12,685
Reserves& Surplus	199,454	231,748	275,262	307,757	340,550
Shareholders Funds	**212,139**	**244,433**	**287,947**	**320,442**	**353,235**
Minority interest	5,472	7,672	14,566	16,777	19,004
Total Loans	69,041	101,041	162,509	194,509	188,509
Deferred Tax Liability	17,151	18,649	24,265	24,265	24,265
Total Liabilities	**303,803**	**371,795**	**489,287**	**555,993**	**585,013**
Gross block	266,051	281,411	330,458	371,817	419,817
less depreciation	106,429	116,835	130,022	144,799	161,483
Net block	**159,622**	**164,576**	**200,436**	**227,018**	**258,334**
Capital work in progress	106,368	166,138	225,000	261,000	271,000
Investments	12,363	12,840	12,535	12,535	12,535
sundry debtors	21,023	22,691	27,672	33,727	42,019
Stores and spare parts/inventory	10,586	17,257	18,978	17,597	22,760
cash and bank balances	25,844	14,462	30,646	48,305	47,723
other current assets	129	2,154	9,121	9,221	9,321
loans and advances	65,587	89,291	73,477	73,477	73,477
Total Current assets, loans and advances	**123,168**	**145,854**	**159,895**	**182,328**	**195,300**
Current liabilities	55,414	73,380	88,322	106,631	131,900
Provisions	42,304	44,234	20,257	20,257	20,257
Total current liabilities and provisions	**97,717**	**117,613**	**108,579**	**126,888**	**152,156**
Net current assets excluding Cash (current assets- current liabilities)	**(393)**	**13,779**	**20,670**	**7,135**	**(4,579)**
Total	**303,803**	**371,795**	**489,287**	**555,993**	**585,013**

Source: Company, Karvy Institutional Research

Exhibit 4: Cash Flow Statement

Y/E Mar (Rsmn)	FY11	FY12	FY13	FY14E	FY15E
EBIT	56,090	62,394	61,659	63,773	63,744
Add- Depreciation	8,880	10,406	13,187	14,776	16,684
Add- Change in Working Capital	(8,683)	(14,173)	(6,890)	13,535	11,714
Less: Other Provisions	(8,732)	(1,498)	(22,370)	1,225	1,002
Add - Direct taxes paid	(18,181)	(19,540)	(22,412)	(21,386)	(21,428)
Cash Flow from Operations	**46,838**	**40,585**	**67,914**	**69,473**	**69,711**
(Inc.)/ Dec. in Fixed Assets	(71,961)	(75,130)	(107,909)	(77,359)	(58,000)
(Inc.)/ Dec. in Investments	(1,711)	(478)	305	-	-
Other income	5,574	4,819	8,293	8,293	8,293
Cash Flow from Investing	**(68,098)**	**(70,789)**	**(99,311)**	**(69,066)**	**(49,707)**
Inc./(Dec.) in loans	14,909	32,000	61,468	32,000	(6,000)
Dividend Paid (Incl. Tax)	(9,514)	(9,514)	(9,514)	(9,514)	(9,514)
Interest Paid	(3,779)	(3,664)	(4,373)	(5,234)	(5,073)
Cash Flow from Financing	**1,617**	**18,822**	**47,581**	**17,252**	**(20,586)**
Inc./(Dec.) in Cash	(19,643)	(11,381)	16,184	17,659	(583)
Opening Cash balances	**45,486**	**25,844**	**14,462**	**30,646**	**48,305**
Closing Cash balances	**25,844**	**14,462**	**30,646**	**48,305**	**47,723**

Source: Company, Karvy Institutional Research

Exhibit 5: Key Ratios

Y/E March	FY11	FY12	FY13	FY14E	FY15E
Valuation Ratio (x)					
P/E (on FDEPS)	8.99	8.21	8.27	7.95	7.94
P/BV	1.70	1.48	1.26	1.13	1.02
EV/Sales	1.15	1.00	0.96	0.95	0.78
EV/EBITDA	6.23	6.16	6.59	6.46	6.25
EV/Total Assets	1.33	1.21	1.01	0.91	0.86
ROCE (Pre-tax)	20.29	18.47	14.32	12.20	11.17
ROE	20.61	19.28	16.22	14.94	13.52
Turnover ratios (x)					
Asset Turnover (Gross Block)	1.36	1.63	1.67	1.53	1.62
Inventory / Sales (days)	9.96	14.47	18.84	19.01	20.98
Receivables (days)	18.78	22.72	26.18	31.92	39.38
Payables (days)	59.58	66.95	84.06	101.35	124.00
Solvency ratios (x)					
Net debt to equity	0.20	0.35	0.46	0.46	0.40
Net debt to EBITDA	0.66	1.19	1.76	1.86	1.75
Interest Coverage (EBIT/Interest)	14.84	17.03	14.10	12.18	12.57

Source: Company, Karvy Institutional Research

Institutional Equities
India Research

Gujarat State Petronet

COMPANY UPDATE

Bloomberg: GUJS IN
Reuters: GSPT.BO

HOLD

Rerating not in the Pipeline

GSPL is the only transmission player to have cross connectivity across Gujarat. However, being highly dependent upon RLNG as a source of Natural Gas, the volumes have been lack luster in the last few quarters. We don't expect significant jump in the volumes going forward as the offftake of significant quantity of LNG is unlikely in the near term.

Volumes continue to be under pressure

The transmission volumes have significantly come down from 37 mmscmd to 23 mmscmd as RLNG fails to make up for deficit in RIL KGD6's supply. We expect the volumes to remain under pressure going forward also as they increasingly depend upon RLNG for sourcing and latent demand is not expected to ramp up notably.

Unlikely to benefit from ramp up of new domestic fields

Incremental domestic production is expected to transmit through GAIL pipelines to the existing Power and Fertilizer Producers operating at lower rates. The Core sectors are unlikely to consume RLNG sourced through GSPL. RIL and Essar Refinery in Jamnagar are the only prospective consumers expected to add not more than 3-5 mmscmd to their existing 23 mmscmd in next 2-3 years.

Valuations & Outlook

We expect transmission volumes to increase by 2 and 3 mmscmd in FY14 and FY15 on the back of higher capacity utilization at Shell (from 30% to 100%) and Dahej terminal (from 105 to 120%). However we don't see upsides in the earnings as higher depreciation and interest cost are likely to keep bottom-line under pressure and consequently reduce ROEs.

The valuations have reduced from 6x to 4.5x on EV/EBITDA basis as volumes came down from 37 mmscmd to 23 mmsmcd. We don't expect ROEs to improve from the current levels as volumes don't ramp up concurrently to capex. We have arrived at valuation of Rs.62/shr with an EV/EBITDA 4 x FY15E as valuations are unlikely to re rate on lack of volume visibility.

Key Financials

(Rs mn)	FY11	FY12	FY13	FY14E	FY15E
Operating income	10,391	11,153	11,732	11,466	11,817
EBITDA	9,616	10,298	10,720	10,406	10,633
EBITDA margin(%)	92.5	92.3	91.4	90.8	90.0
PAT	5,064	5,221	5,381	4,928	4,805
PAT margin(%)	48.7	46.8	45.9	43.0	40.7
EPS(Rs)	9.0	9.3	9.5	8.7	8.5
P/E(x)	5.8	5.6	5.5	6.0	6.1
EV/EBITDA(X)	4.1	3.4	3.2	3.2	3.3
EV/Sales(X)	3.8	3.1	2.9	2.9	3.0

Source: Company, Karvy Institutional Research

Recommendation

CMP:	Rs52
Target Price:	Rs62
Upside (%)	20%

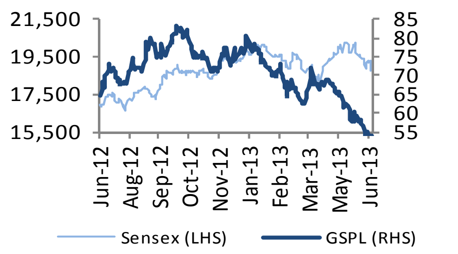
Stock Information

Market Cap. (Rs bn / US$ mn)	29/486
52-week High/Low (Rs)	87/50
3m ADV (Rs mn /US$ mn)	46/0.8
Beta	0.9
Sensex/ Nifty	18,541/5,590
Share outstanding (mn)	563

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	(11.8)	(17.4)	(20)	(32.8)
Rel. to Sensex	(6.3)	(16.5)	(26.8)	(29.6)

Performance



Source: Bloomberg

Analysts Contact

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Valuation Analysis

Basis for Assumptions

Transmission Volumes expected to be under pressure

We expect incremental Natural Gas transmission volumes of mere 2-4 mmscmd in the next two years (25mmscmd and 27 mmscmd) as Shell's Hazira Terminal ramp. It is unlikely to be beneficiary of any increase in domestic production as they have not been catering core consumers avidly. High dependence on latent users reduces the incremental quantity of offtake from their pipelines. Besides petcoke gasification project by RIL might reduce LNG offtake from RIL's Jamnagar refinery.

Realization to avert dip in the earnings

We are expecting a tariff of Rs 1.3/scm for next couple of years. The Take or Pay clause has been a savior for the earnings since many quarters. Although earnings are expected to trim going forward, tariffs are expected to offset for dip in transmission volumes.

Price performance and Valuation Analysis

GSPL has underperformed Sensex by 28% in last one year on account of drop in KGD6 output by ~40 mmscmd and Dahej terminal operating optimally. The one year forward valuations have reduced from EV/EBITDA 6x to EV/EBITDA 4.5x. Lower volume visibility and further dip in the existing volumes would restrict any rerating in the stock. Our valuation arrives at Rs. 62/share at an EV/EBITDA of 4x viewing dip in the earnings and ROE shrinking to ~13%. We reiterate our HOLD recommendation on the stock despite all the negatives since valuations have bottomed out and margin of safety is higher.

Upside Risks

- Higher Offtake from Essar Jamnagar Refinery
- Allocation of additional domestic gas to power plants in their network

Financials

Exhibit 1: Profit & Loss Statement

Y/E Mar (Rs mn)	FY11	FY12	FY13	FY14E	FY15E
Total operating income	**10,391**	**11,233**	**11,732**	**11,466**	**11,818**
Employee cost	153	197	247	280	360
Admin and other expenses	264	294	251	270	300
Operation and maintenance exp	358	444	513	510	525
Total Expenditure	**775**	**935**	**1,011**	**1,060**	**1,185**
EBITDA	**9,616**	**10,298**	**10,720**	**10,406**	**10,633**
Depreciation& Amortisation	1,533	1,819	1,861	1,989	2,225
EBIT	**8,083**	**8,479**	**8,859**	**8,417**	**8,408**
Interest & other Charges	961	1,302	1,262	1,517	1,695
Other Income	291	513	660	660	660
PBT (reported)	**7,650**	**7,690**	**8,257**	**7,561**	**7,373**
Tax	2,586	2,470	2,876	2,633	2,568
Recurring PAT	**5,064**	**5,221**	**5,381**	**4,928**	**4,805**
Basic EPS (Rs)	9.00	9.28	9.57	8.76	8.54

Source: Company, Karvy Institutional Research

Exhibit 2: Balance Sheet

Y/E Mar (Rs mn)	FY11	FY12	FY13	FY14E	FY15E
Equity Share Capital	5,642	5,626	5,627	5,627	5,627
Reserves& Surplus	14,424	19,040	23,779	28,144	32,386
Shareholders Funds	**20,066**	**24,666**	**29,406**	**33,771**	**38,013**
Total Loans	12,242	11,084	13,567	17,842	19,942
Deferred Tax Liability	2,641	3,244	3,867	3,867	3,867
Total Liabilities	**34,949**	**38,993**	**46,840**	**55,480**	**61,822**
Gross block	41,935	43,225	46,935	49,935	52,935
less depreciation	10,118	11,822	13,684	15,672	17,897
Net block	31,817	31,402	33,252	34,263	35,038
Capital work in progress	3,546	4,182	4,523	9,023	13,523
Investments	766	1,164	1,740	1,740	1,740
sundry debtors	698	814	*2,541*	*817*	*842*
Stores and spare parts/inventory	430	662	*772*	*785*	*907*
cash and bank balances	2,390	5,148	8,529	13,368	14,289
other current assets	167	167	244	244	244
loans and advances	1,320	1,114	932	932	932
Total Current assets, loans and advances	**5,004**	**7,905**	**13,017**	**16,146**	**17,213**
Current liabilities	5,394	5,003	4,983	4,983	4,983
Provisions	792	659	711	711	711
Total current liabilities and provisions	**6,186**	**5,662**	**5,694**	**5,694**	**5,694**
Net current assets excluding cash (current assets- current liabilities)	**(3,572)**	**(2,905)**	**(1,206)**	**(2,916)**	**(2,770)**
Miscellaneous expenditure	2	2	2	2	2
Total	**34,949**	**38,993**	**46,840**	**55,480**	**61,822**

Source: Company, Karvy Institutional Research

Exhibit 3: Cash Flow Statement

Y/E Mar (Rs mn)	FY11	FY12	FY13	FY14E	FY15E
EBIT	8,083	8,479	8,859	8,417	8,408
Add- Depreciation	1,533	1,819	1,861	1,989	2,225
Add- Change in Working Capital	1,046	(667)	(1,699)	1,710	(146)
Less: Other provisions	(981)	(48)	32	-	-
Add - Direct taxes paid	(2,586)	(2,470)	(2,876)	(2,633)	(2,568)
Cash Flow from Operations	9,056	7,209	6,113	9,483	7,919
(Inc.)/ Dec. in Fixed Assets	(6,839)	(1,926)	(4,052)	(7,500)	(7,500)
(Inc.)/ Dec. in Investments	(100)	(398)	(576)	-	-
Other income	291	513	660	660	660
Cash Flow from Investing	(6,549)	(1,412)	(3,391)	(6,840)	(6,840)
Issue of Equity	17	(16)	1	-	-
Inc./(Dec.) in loans	(353)	(1,158)	2,483	4,275	2,100
Dividend Paid (Incl. Tax)	(563)	(563)	(563)	(563)	(563)
Interest Paid	(961)	(1,302)	(1,262)	(1,517)	(1,695)
Cash Flow from Financing	(1,859)	(3,039)	660	2,196	(158)
Inc./(Dec.) in Cash	648	2,758	3,381	4,839	921
Opening Cash balances	1,742	2,390	5,148	8,529	13,368
Closing Cash balances	2,390	5,148	8,529	13,368	14,289

Source: Company, Karvy Institutional Research

Exhibit 4: Key Ratios

Y/E March	FY11	FY12	FY13	FY14E	FY15E
Valuation Ratio (x)					
P/E (on FDEPS)	5.79	5.62	5.45	5.95	6.11
P/BV	1.46	1.19	1.00	0.87	0.77
EV/Sales	3.77	3.14	2.93	2.95	2.95
EV/EBITDA	4.08	3.43	3.21	3.25	3.28
EV/Total Assets	1.12	0.90	0.73	0.61	0.56
ROCE (Pre-tax)	25.03	22.93	20.64	16.45	14.34
ROE	28.37	23.34	19.90	15.60	13.39
Turnover ratios (x)					
Asset Turnover (Gross Block)	0.28	0.26	0.26	0.24	0.23
Inventory / Sales (days)	34.23	22.56	25.17	27.34	29.71
Receivables (days)	25.47	26.56	58.93	58.97	29.13
Payables (days)	179.90	182.61	175.39	175.05	175.05
Solvency ratios (x)					
Net debt to equity	0.49	0.24	0.17	0.13	0.15
Net debt to EBITDA	1.02	0.58	0.47	0.43	0.53

Source: Company, Karvy Institutional Research

Institutional Equities
India Research

Petronet LNG

COMPANY UPDATE

Bloomberg: PLNG IN
Reuters: PLNG.BO

BUY

In a Tight 'Spot'; Valuations attractive

Petronet LNG has been the primary beneficiary of KGD6 gas shortfall in last couple of years. However, optimal utilization of Dahej Terminal, delay in commissioning of Kochi terminal, and lower acceptability of RLNG in the new markets has resulted into under performance of the stock in last one year. Although we don't expect substantial ramp up in volumes we believe the recent correction in the stock has priced in all the negatives.

Kochi Terminal: Infrastructure Bottlenecks and fewer Buyers

Kochi terminal is expected to commission during 1HFY14, starting the supplies to Kochi Refinery and Fact India. However the offtake doesn't seem to increasing beyond 0.5 mtpa (capacity of 5 MTPA) in the near term. The pipelines to Kanjarkkod- Mangalore have been delaying as localities are still agitating against laying pipeline on their farmlands. Besides, the prospective users are yet to convert their facilities to gas based even though pipeline reaches their locations.

Tariffs and Margins to keep earnings Buoyant though

The margins on spot volumes and short term contracts are expected to be buoyant due to deficit in domestic market. The regas tariff of incremental volumes from Dahej and Kochi terminal are expected to offset for lower operating rates to a certain extent. The initial contracts of LNG from Kochi have been signed at Rs 62/mmbtu (Dahej Regas Tariff at Rs 38/mmbtu).

Dahej Debottlenecking to drive the earnings and avert dip in valuations; Valuation turn attractive

We don't expect ROEs to improve in next couple of years as Kochi terminal operates at lower rates. We expect it to take longer time to optimize in the new southern market. Currently the visibility of offtake from Kochi Terminal is not more than 1 MTPA in Phase 1 Pipeline. However, all these negatives seem to be priced in. We have accounted for Dahej ramp up in FY15. We expect margins and Regas Tariffs to stay buoyant. Our Valuation arrives at Rs 158/shr at EV/EBITDA 5X FY15E. We upgrade our rating to **BUY**.

Key Financials

Y/E Mar (Rs mn)	FY11	FY12	FY13	FY14E	FY15E
Operating income	131,057	224,507	312,970	385,214	428,070
EBITDA	12,163	18,292	19,388	23,371	26,938
EBITDA margin (%)	9.3	8.1	6.2	6.1	6.3
PAT	6,196	10,575	11,493	11,924	14,205
PAT margin (%)	4.7	4.7	3.7	3.1	3.3
EPS (Rs)	8.3	14.1	15.3	15.9	18.9
P/E (x)	14.3	8.4	7.7	7.4	6.2
EV/EBITDA (x)	9.8	6.0	5.3	4.2	3.3
P/BV (x)	3.3	2.5	2.0	1.6	1.3

Source: Company, Karvy Institutional Research

Recommendation

CMP:	Rs118
Target Price:	Rs158
Upside (%)	34%

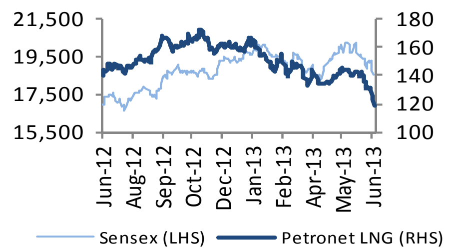
Stock Information

Market Cap. (Rs bn / US$ mn)	89/1,485
52-week High/Low (Rs)	180/118
3m ADV (Rs mn /US$ mn)	136/2.3
Beta	0.7
Sensex/ Nifty	18,541/5,590
Share outstanding (mn)	750

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	(15.4)	(14.9)	(14.6)	(24.8)
Rel. to Sensex	(10)	(14)	(21.8)	(21.2)

Performance



Source: Bloomberg

Analysts Contact
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Valuation Analysis

Basis for Assumptions

Volume ramp up expected to be slow

We have expected slower ramp in the volumes of Kochi as well as Dahej Terminal due to inexistent demand from core sectors and infrastructural bottlenecks. We have assumed Kochi terminal to start up its operations with 0.6 MTPA in FY14 and increase the volumes further to 1 MTPA in FY15. Dahej expansion is expected to commission by the end of FY14. We expect volumes to increase by 0.8 MTPA in FY15 from Dahej Terminal.

Tariffs expected to be buoyant

The marketing margins and the tariffs are expected to make up largely for slower ramp up in the volumes. We expect initial tariff at Kochi terminal to be Rs 60/mmbtu. The Dahej terminal is expected to earn a tariff of Rs 46-48/mmbtu, including the marketing margins.

Not factoring in further expansions; Earnings unlikely to take a dip

We are not factoring Dahej expansion of 5 MMTPA and Gangavaram terminal awaiting further visibility. We expect FY15 earnings to increase marginally in FY14 to 15.9 and by 19% in FY15 as Dahej terminal ramps up further.

Price performance and Valuation Analysis

The stock has been an under performer on the back of political issues in laying the Kochi Kanjarkkod pipeline, resulting in delay in Kochi Terminal. Lower offtake from Dahej terminal also played dampener to the valuation. Although we don't expect substantial ramp up in volumes, due to infrastructural and affordability issues, we believe the recent correction in the stock has priced in all the negatives.

Currently the valuation seems to be very attractive at EV/EBITDA 4.7 x FY14E and 7.4x FY14E. Despite not being upbeat on volumes, we believe it is too cheap for a stock with ROE of ~ 20%.and CAGR growth in net profit of 11% for next two years. We upgrade our rating to BUY with a target price 158(150 earlier) at EV/EBITDA 5xFY15E, considering it to be the only incremental substantial supplier of gas and expecting margins to more than offset slower ramp up in volumes.

Downside Risks

- Lower marketing margins
- Delay in ramp up at Dahej
- Further delay in Kochi Mangalore Pipeline

Financials

Exhibit 1: Profit & Loss Statement

Y/E Mar (Rs mn)	FY11	FY12	FY13	FY14E	FY15E
Net Sales	131,057	224,507	312,970	385,214	428,070
othe operating income	915	2,452	1,705	1,779	2,476
Total operating income	**131,973**	**226,958**	**314,674**	**386,993**	**430,547**
Raw material consumed	118,012	206,247	292,098	360,122	399,667
Personnel expenses	306	298	370	330	409
Operation and other exp	1,492	2,122	2,819	3,169	3,533
Total Expenditure	**119,810**	**208,666**	**295,287**	**363,622**	**403,608**
EBITDA	**12,163**	**18,292**	**19,388**	**23,371**	**26,938**
Depreciation& Amortisation	1,847	1,842	1,866	4,038	4,161
EBIT	**10,316**	**16,450**	**17,522**	**19,334**	**22,778**
Interest & other Charges	1,931	1,774	1,184	2,140	2,140
Other Income	680	849	865	865	865
Recurring PBT	**9,064**	**15,525**	**17,203**	**18,059**	**21,503**
Tax	2,868	4,950	5,710	6,135	7,298
Recurring PAT	**6,196**	**10,575**	**11,493**	**11,924**	**14,205**
Basic EPS (Rs)	8.26	14.10	15.32	15.90	18.94

Source: Company, Karvy Institutional Research

Exhibit 2: Balance Sheet

Y/E Mar (Rs mn)	FY11	FY12	FY13	FY14E	FY15E
Equity Share Capital	7,500	7,500	7,500	7,500	7,501
Reserves& Surplus	19,302	27,698	36,997	47,421	60,125
Shareholders Funds	26,802	35,198	44,497	54,921	67,626
Total Loans	32,161	30,339	27,182	30,577	30,577
Deferred Tax Liability	3,480	3,630	3,910	3,910	3,910
Total Liabilities	**62,443**	**69,167**	**75,589**	**89,407**	**102,113**
Gross block	35,537	35,568	34,968	77,968	87,968
less depreciation	8,513	10,353	12,219	16,257	20,417
Net block	**27,024**	**25,215**	**22,749**	**61,711**	**67,550**
Capital work in progress	22,029	32,900	44,028	16,235	13,995
Investments	11,649	1,399	1,399	1,399	1,399
sundry debtors	8,472	12,859	16,898	25,329	29,320
Stores and spare parts/inventory	2,480	7,124	10,366	12,665	15,246
Cash and bank balances	1,540	9,839	12,685	20,978	31,228
Other current assets	47	86	26	26	26
loans and advances	1,336	2,689	2,570	2,632	2,694
Total Current assets,loans and advances	**13,875**	**32,596**	**42,545**	**61,629**	**78,514**
Current liabilities	10,348	20,658	32,940	49,375	57,154
Provisions	1,786	2,285	2,191	2,191	2,191
Total current liabilities and provisions	**12,134**	**22,943**	**35,131**	**51,566**	**59,345**
Total	**62,443**	**69,167**	**75,589**	**89,407**	**102,113**

Source: Company, Karvy Institutional Research

Exhibit 3: Cash Flow Statement

Y/E Mar (Rs mn)	FY11	FY12	FY13	FY14E	FY15E
EBIT	10,316	16,450	17,522	19,334	22,778
Add- Depreciation	1,847	1,842	1,866	4,038	4,161
Add- Change in Working Capital	(395)	386	5,086	5,643	1,145
Less: Other income	213	530	414	-	-
Add - Direct taxes paid	(2,868)	(4,950)	(5,710)	(6,135)	(7,298)
Cash Flow from Operations	**8,686**	**13,198**	**18,349**	**22,880**	**20,786**
(Inc.)/ Dec. in Fixed Assets	(8,887)	(10,902)	(10,528)	(15,207)	(7,761)
(Inc.)/ Dec. in Investments	(6,263)	10,250	-	-	-
Other income	680	849	865	865	865
Cash Flow from Investing	**(14,470)**	**197**	**(9,662)**	**(14,341)**	**(6,895)**
Inc./(Dec.) in loans	7,163	(1,822)	(3,157)	3,395	-
Dividend Paid (Incl. Tax)	(1,313)	(1,500)	(1,500)	(1,500)	(1,500)
Interest Paid	(1,931)	(1,774)	(1,184)	(2,140)	(2,140)
Cash Flow from Financing	**3,919**	**(5,096)**	**(5,841)**	**(246)**	**(3,639)**
Inc./(Dec.) in Cash	(1,865)	8,299	2,846	8,293	10,251
Opening Cash balances	**3,405**	**1,540**	**9,839**	**12,685**	**20,978**
Closing Cash balances	**1,540**	**9,839**	**12,685**	**20,978**	**31,228**

Source: Company, Karvy Institutional Research

Exhibit 4: Key Ratios

Y/E Mar	FY11	FY12	FY13	FY14E	FY15E
P/E (on FDEPS)	14.28	8.37	7.70	7.42	6.23
P/BV	3.30	2.51	1.99	1.61	1.31
EV/Sales	0.90	0.48	0.33	0.25	0.20
EV/EBITDA	9.79	5.96	5.31	4.20	3.26
EV/Total Assets	1.91	1.58	1.36	1.10	0.86
ROCE (Pre-tax)	18.25	25.00	24.21	23.44	23.79
ROE	25.21	34.11	28.84	23.99	23.18
Asset Turnover (Gross Block)	3.72	6.38	8.92	6.85	5.19
Inventory / Sales (days)	6.50	13.28	24.19	31.85	38.60
Receivables (days)	18.68	29.50	41.15	58.39	75.57
Payables (days)	24.61	42.88	74.12	113.83	147.31
Net debt to equity	1.14	0.58	0.33	0.17	-0.01
Net debt to EBITDA	2.52	1.12	0.75	0.41	-0.02

Source: Company, Karvy Institutional Research

KARVY STOCK BROKING

Oil & Gas

June 25, 2013

Institutional Equities
India Research

Indraprastha Gas

COMPANY UPDATE

Bloomberg: IGL IN
Reuters: IGAS.BO

BUY

Higher Gas Cost Reduces Volume Off-take

IGL has been immune to the earning uncertainties in Oil and gas segment. Being cheaper than alternative fuels and having lower penetration in CNG market, their earnings have been buoyant. We expect the volume growth to taper off in the near future as the cost of CNG and PNG increases further, however margins will make up for the dip as the competitive fuels are still expensive. Although the earnings are likely to be under pressure, we believe it is still attractively valued due to regulatory uncertainties

Higher Gas Cost taking a Toll on Volumes

IGL reported 9.3% volume growth in FY13 as against >20% growth in previous couple of years. It has been successfully passing through higher LNG cost as well as weaker rupee. However the pass through has come at the cost of volume growth. The CNG volume growth has come down to 8% vis-à-vis 12 % whereas PNG volume growth was 18% vis-à-vis 57 %.

Although Margins remain Buoyant

The annual margins for FY13 were higher by 9% despite cost pressure on the back of regular pass through to the end users. The dip in the volume growth is offset by higher margins to a large extent. The CNG prices have been increased from Rs 34 /kg to Rs 39.2/kg in last 4 quarters whereas PNG prices have been increased by more than Rs 3/scm.

Irrespective of Supreme court Judgment; there still lies value: We have assumed degrowth in earnings for FY15 vis-à-vis FY13 keeping in mind the uncertainties on Court Hearing. Still due to regulatory uncertainties IGL seems to be attractively valued at 11.5x FY15E as we believe any reduction in volume growth could be made up with buoyant margins. Our valuation arrives at 320 at 13x FY15E, assuming an EPS of Rs. 24.6/share with EBITDA of Rs. 5.3/scm. We reiterate our **BUY** rating on the stock. However any rally followed by favorable decision by Supreme Court is likely to provide an opportunity to book profits as we don't see upsides further.

Key Financials

(Rs mn)	FY11	FY12	FY13	FY14E	FY15E
Operating income	17,441	25,187	33,667	41,359	54,087
EBITDA	4,922	6,345	7,578	7,376	8,275
EBITDA margin (%)	28.2	25.2	22.5	17.8	15.3
PAT	2,597	3,064	3,538	3,240	3,446
PAT margin (%)	14.9	12.2	10.5	7.8	6.4
EPS (Rs)	18.5	21.9	25.3	23.1	24.6
P/E (x)	14.3	12.1	10.5	11.5	10.8
EV/EBITDA(x)	8.4	6.7	5.3	5.5	4.9
EV/Sales(x)	2.4	1.7	1.2	1.0	0.8

Source: Company, Karvy Institutional Research

Recommendation

CMP:	Rs265
Target Price:	Rs320
Upside (%)	21%

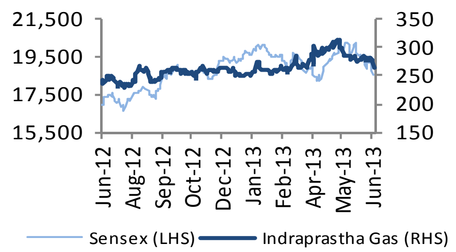
Stock Information

Market Cap. (Rs bn / US$ mn)	37/621
52-week High/Low (Rs)	329/210
3m ADV (Rs mn /US$ mn)	281/4.7
Beta	0.6
Sensex/ Nifty	18,541/5,590
Share outstanding (mn)	140

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	(5.1)	(2.3)	8.8	6.3
Rel. to Sensex	0.8	(1.3)	(0.4)	11.4

Performance



Source: Bloomberg

Analysts Contact

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Valuation Analysis

Basis for Assumptions

Volumes Growth tapering off

We have expected CNG volumes to grow at 12-13% and PNG volumes to grow at 25% in FY14 and FY15. Although it is much higher than volume growth reported in Q4FY13 we have expected much lower margins.

Domestic Gas price Hike likely to compress the margins

We are assuming a Gross margin of Rs 4.7/scm and Rs. 5.1/scm in FY14 and FY15 respectively. We expect the cost to increase by Rs 3/scm by FY15 and thus CNG price is expected to be hiked by Rs. 4-5/kg. Weaker rupee might suppress the margins further.

Assuming dip in earnings viewing regulatory uncertainties

We expect earnings to reduce by 9% in FY14 and improve by 6% in FY15 on account of lower volume growth and flatter margins.

Price performance and Valuation Analysis

The stock has been an outperformer since our BUY recommendation. The stock was beaten down on account of tariff order of PNGRB for slashing CNG tariffs in Delhi Network. However, buoyant quarterly earnings and a favorable expectation from the Apex Court Hearing resulted in a rally in the stock.

We don't expect any significant downside to the earnings consequent to Apex Court Hearing (July 15th). We believe IGL will manage to restore its tariff during the review of the order considering actual expenditure incurred.

We have valued IGL at 13x FY15E (Gujarat Gas stake sale to GSPC at 15x CY14E), despite better fundamentals. We recommend to book profits if the stock rally post favorable judgement by the Apex as the positives will be priced in at more than 15x. We Reiterate our BUY rating on the stock with a target price of Rs. 320 at 13x FY15 (Gujarat Gas we are valuing at 12x)

Downside Risks

- Apex Court Judgment in favor of PNGRB
- Higher domestic gas price hike
- Rupee stabilizing weaker

Financials

Exhibit 1: Profit & Loss Statement (Standalone)

Y/E Mar (Rs mn)	FY11	FY12	FY13	FY14E	FY15E
Total operating income	**17,441**	**25,187**	**33,667**	**41,359**	**54,087**
Raw Materials	9,843	15,401	21,970	29,158	40,092
Power & Fuel Cost	337	475	541	655	787
Employee Cost	379	437	567	603	725
Other Manufacturing Expenses	1,299	1,729	2,098	2,464	2,881
Selling and Administration Expenses	661	800	912	1,104	1,326
Total Expenditure	**12,519**	**18,842**	**26,088**	**33,983**	**45,811**
EBITDA	**4,922**	**6,345**	**7,578**	**7,376**	**8,275**
Depreciation& Amortisation	1,029	1,432	1,867	1,946	2,342
EBIT	**3,893**	**4,913**	**5,712**	**5,431**	**5,933**
Interest & other Charges	132	479	562	724	805
Other Income	95	67	129	57	58
Recurring PBT	**3,856**	**4,501**	**5,279**	**4,763**	**5,187**
Tax	1,259	1,437	1,741	1,523	1,740
Recurring PAT	**2,597**	**3,064**	**3,538**	**3,240**	**3,446**
EPS	18.5	21.9	25.3	23.1	24.6

Source: Company, Karvy Institutional Research

Exhibit 2: Balance Sheet (Standalone)

Y/E Mar (Rs mn)	FY11	FY12	FY13	FY14E	FY15E
Equity Share Capital	1,400	1,400	1,400	1,400	1,400
Reserves& Surplus	8,639	10,889	13,530	16,207	19,090
Shareholders Funds	10,039	12,289	14,930	17,607	20,490
Total Loans	4,633	5,818	3,491	4,500	5,000
Total Liabilities	**14,672**	**18,108**	**18,421**	**22,107**	**25,490**
Gross block	17,160	22,712	27,186	30,805	36,687
less depreciation	5,566	6,877	8,744	10,689	13,031
Net block	11,595	15,835	18,443	20,116	23,656
Capital work in progress	3,423	3,751	2,913	5,436	6,474
Investments	416	984	1,426	1,426	1,426
sundry debtors	745	1,298	1,789	1,473	1,926
Stores and spare parts/inventory	359	374	397	453	593
cash and bank balances	173	320	510	744	1,239
loans and advances	956	610	654	654	654
Total Current assets,loans and advances	**2,233**	**2,602**	**3,349**	**3,325**	**4,413**
Current liabilities	1,729	3,623	6,031	6,517	8,800
Provisions	859	816	984	984	984
Total current liabilities and provisions	**2,587**	**4,439**	**7,016**	**7,502**	**9,785**
Miscellaneus expenditure	(408)	(627)	(694)	(694)	(694)
Total	**14,672**	**18,108**	**18,421**	**22,107**	**25,490**

Source: Company, Karvy Institutional Research

Exhibit 3: Cash Flow Statement (Standalone)

Y/E Mar (Rs mn)	FY11	FY12	FY13	FY14E	FY15E
EBIT	3,893	4,913	5,712	5,431	5,933
Add- Depreciation	1,029	1,432	1,867	1,946	2,342
Add- Change in Working Capital	(1,106)	1,629	2,020	745	1,690
Less: Other income	(1,304)	152	709	-	-
Add - Direct taxes paid	(1,259)	(1,437)	(1,741)	(1,523)	(1,740)
Cash Flow from Operations	**3,861**	**6,385**	**7,148**	**6,598**	**8,225**
(Inc.)/ Dec. in Fixed Assets	(7,704)	(5,880)	(3,636)	(6,142)	(6,920)
(Inc.)/ Dec. in Investments	(246)	(568)	(442)	-	-
Other income	95	67	129	57	58
Cash Flow from Investing	**(7,856)**	**(6,381)**	**(3,507)**	**(6,085)**	**(6,862)**
Inc./(Dec.) in loans	4,081	1,185	(2,327)	1,009	500
Dividend Paid (Incl. Tax)	(563)	(563)	(563)	(563)	(563)
Interest Paid	(563)	(479)	(562)	(724)	(805)
Cash Flow from Financing	**2,955**	**144**	**(3,452)**	**(278)**	**(868)**
Inc./(Dec.) in Cash	(1,039)	147	189	234	495
Opening Cash balances	**1,213**	**173**	**320**	**510**	**744**
Closing Cash balances	**173**	**320**	**510**	**744**	**1,239**

Source: Company, Karvy Institutional Research

Exhibit 4: Key Ratios

Y/E March	FY11	FY12	FY13	FY14E	FY15E
Valuation Ratio (x)					
P/E (on FDEPS)	14.29	12.11	10.49	11.45	10.77
P/BV	3.70	3.02	2.48	2.11	1.81
EV/Sales	2.38	1.69	1.19	0.99	0.76
EV/EBITDA	8.44	6.71	5.29	5.54	4.94
EV/Total Assets	2.83	2.35	2.18	1.85	1.60
Dupont Analysis (%)					
Returns (%)					
ROCE (Pre-tax)	33.16	29.97	31.27	26.80	24.93
ROE	28.39	27.45	26.00	19.91	18.09
Turnover ratios (x)					
Asset Turnover (Gross Block)	1.24	1.26	1.35	1.43	1.60
Inventory / Sales (days)	6.67	7.67	8.06	8.89	10.95
Receivables (days)	11.30	21.38	32.30	34.13	35.57
Payables (days)	31.29	56.00	101.03	131.31	160.29
Solvency ratios (x)					
Net debt to equity	0.44	0.45	0.20	0.21	0.18
Net debt to EBITDA	0.91	0.87	0.39	0.51	0.45

Source: Company, Karvy Institutional Research

Institutional Equities
India Research

Gujarat Gas

COMPANY UPDATE

Bloomberg: GGAS IN
Reuters: GGAS.BO

HOLD

Higher Gas Cost Reduces Volume Off-take

Gujarat Gas has been reporting dip in the volumes since last couple of quarters. The growth rate has come down from 12% to -13%% in last 10 quarters. This could be attributed to lower demand from the industrial segments due to higher cost of natural gas. The cost has doubled in last 2 years. We expect margins to make up for lower volume growth to a certain extent. However we don't see notable earning upsides.

Volumes continue to be under pressure

With a significant reduction in domestic supply, higher component of LNG in volumes sold to SMEs has increased the variable cost by 25% YoY followed by an increase in selling price by 23%. The average realization of gas in 1QCY13 is Rs. 28.9/scm as against Rs. 23.5/scm in the corresponding quarter last year. Apart from increasing component of LNG in sourcing portfolio, the LNG prices have also increased. This has resulted in significant reduction in the offtake of natural gas by the SMEs due to affordability issues. Management states that the volumes in the industrial segment have been undergoing a churn with increasing price of gas.

Margins unable to make up for fall in volumes

The margins have come down sequentially by Rs. 1.2 / scm as higher LNG cost restricted their pass through ability. Although they managed to realize margins higher then Rs 5/scm in CY12 their earnings have barely managed a 5% growth annually. Although margins are expected to continue strong, volumes are likely to play spoilsport.

Valuation & Outlook

We expect the volumes to be under pressure until LNG prices correct and stabilize at $10/mmbtu, which seems to be very unlikely in the medium term. We upgrade our rating to **HOLD** on the stock with a target price of Rs 240 at 12x CY14. Any favorable judgment from Supreme Court IGL-PNGRB case could be an opportunity to exit the stock at a higher price.

Key Financials

Y/E Mar (Rs mn)	CY10	CY11	CY12	CY13E	CY14E
Operating income	18,493	24,159	30,921	32,464	30,487
EBITDA	4,156	3,952	4,049	3,356	3,697
EBITDA margin (%)	22.9	16.6	13.2	10.4	12.3
PAT	2,595	2,739	2,866	2,441	2,582
PAT margin (%)	14.3	11.5	9.3	7.6	8.6
EPS (Rs)	18.7	21.3	22.4	19.0	20.1
P/E (x)	10.7	9.4	8.9	10.6	10.0
EV/EBITDA(x)	7.1	7.4	7.2	8.7	7.7
P/BV (x)	3.7	3.9	3.2	2.9	2.6

Source: Company, Karvy Institutional Research

Recommendation

CMP:	Rs200
Target Price:	Rs240
Upside (%)	20%

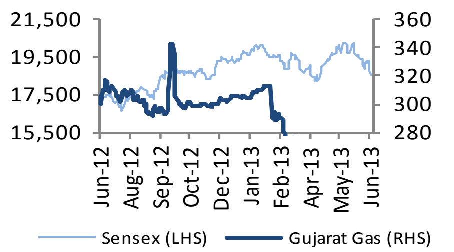
Stock Information

Market Cap. (Rs bn / US$ mn)	26/430
52-week High/Low (Rs)	353/196
3m ADV (Rs mn /US$ mn)	08/0.1
Beta	0.5
Sensex/ Nifty	18,541/5,590
Share outstanding (mn)	128

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	(16.6)	(20.7)	(35.5)	(34.4)
Rel. to Sensex	(11.3)	(19.8)	(41)	(31.2)

Performance



Source: Bloomberg

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Valuation Analysis

Basis for Assumptions

Volumes unlikely to restore in the near term

The volumes declined 8% YOY in CY12 and 13 % in 1QCY13. We have assumed degrowth of 3% and a flat 2 % growth in the volume for CY13 and CY14 considering lower base. As the cost increases further with higher consumption of LNG the volumes might go below our expectations.

Margins to play the saviour

We are assuming a Gross margin of Rs 4.8/scm and Rs. 5/scm. Although our assumption of rupee is 54, the cost might increase further if rupee stabilizes at 58. This might pressurize the margins further.

Earnings unlikely to grow

We expect earnings to reduce by 15% in FY14 and improve by 6% in FY15 on account of lower volumes and flat margins.

Price performance and Valuation Analysis

The stock has significantly under preformed the markets since it has been reporting dip in the volumes since last couple of quarters. The growth rate has come down from 12% to -13%% in last 10 quarters. Although the pass through ability has been good, it has taken a hit on their volumes.

We believe that the earnings growth is unlikely since they won't be able to earn higher margins. If the cost reduces due to lower LNG prices they will be reducing the prices to restore the volume growth back.

We upgrade our rating to HOLD as the stock has corrected 45 % since our SELL recommendation. Although fundamentals are weak, we believe it has been largely priced in. We have downgraded our target price to Rs. 240 (From 270 earlier) at 12x CY14E as the outlook gets weaker, although the stake sale was much higher at 15x.

Upside Risks

- Higher Margins on account of reduction in LNG price
- Allocation of new cities in PNGRB bidding

Financials

Exhibit 1: Profit & Loss Statement

Y/E Mar (Rs mn)	CY10	CY11	CY12	CY13E	CY14E
Net Sales	18,136	23,819	30,669	32,149	30,127
Other operating income	357	340	252	315	360
Total operating income	**18,493**	**24,159**	**30,921**	**32,464**	**30,487**
Total Expenditure	**14,337**	**20,208**	**26,872**	**29,108**	**26,790**
EBITDA	**4,156**	**3,952**	**4,049**	**3,356**	**3,697**
Depreciation& Amortisation	542	593	654	714	774
EBIT	**3,614**	**3,358**	**3,396**	**2,642**	**2,923**
Other Income	224	544	653	624	560
Recurring PBT	**3,838**	**3,902**	**4,048**	**3,266**	**3,483**
Tax	1,243	1,163	1,182	825	901
Recurring PAT	**2,595**	**2,739**	**2,866**	**2,441**	**2,582**
EPS	18.68	21.27	22.35	18.96	20.05

Source: Company, Karvy Institutional Research

Exhibit 2: Balance Sheet

Y/E Mar (Rs mn)	CY10	CY11	CY12	CY13E	CY14E
Equity Share Capital	294	305	257	257	257
Preference Capital	144	144	-	-	-
Reserves& Surplus	7,912	7,346	9,163	10,254	11,487
Shareholders Funds	8,350	7,795	9,419	10,511	11,744
Total Deposits	2,074	2,564	2,689	2,516	2,516
Deferred Tax Liability	719	801	933	933	933
Total Liabilities	**11,142**	**11,160**	**13,041**	**13,959**	**15,192**
Gross block	9,670	10,607	11,986	13,091	14,196
less depreciation	3,330	3,867	4,520	5,234	6,008
Net block	6,340	6,740	7,465	7,856	8,187
Capital work in progress	1,298	1,535	1,567	1,717	1,867
Investments	5,692	5,206	3,732	3,732	3,732
sundry debtors	1,411	1,839	1,834	2,466	2,311
Stores and spare parts/inventory	106	158	243	160	160
cash and bank balances	49	94	300	131	922
other current assets	73	34	126	126	126
loans and advances	157	148	245	245	245
Total Current assets,loans and advances	1,796	2,272	2,749	3,129	3,764
Current liabilities	2,077	2,658	2,390	2,392	2,275
Provisions	1,906	1,934	82	82	82
Total current liabilities and provisions	**3,983**	**4,592**	**2,473**	**2,475**	**2,358**
Net current assets excluding cash (current assets- current liabilities)	**(2,187)**	**(2,320)**	**276**	**654**	**1,406**
Total	**11,142**	**11,160**	**13,041**	**13,959**	**15,192**

Source: Company, Karvy Institutional Research

Exhibit 3: Cash Flow Statement

Y/E Mar (Rs mn)	CY10	CY11	CY12	CY13E	CY14E
EBIT	3,614	3,358	3,396	2,642	2,923
Add- Depreciation	542	593	654	714	774
Add- Change in Working Capital	406	177	(2,389)	(546)	38
Less: Other provision	196	(3)	(486)	-	-
Add - Direct taxes paid	(1,243)	(1,163)	(1,182)	(825)	(901)
Cash Flow from Operations	3,123	2,968	964	1,985	2,834
(Inc.)/ Dec. in Fixed Assets	(1,031)	(1,174)	(1,411)	(1,255)	(1,255)
(Inc.)/ Dec. in Investments	(1,327)	486	1,474	-	-
Other income	224	544	653	624	560
Cash Flow from Investing	(2,134)	(144)	716	(631)	(695)
Inc./(Dec.) in loans	520	490	125	(173)	-
Dividend Paid (Incl. Tax)	(1,549)	(3,280)	(1,549)	(1,349)	(1,349)
Cash Flow from Financing	(1,012)	(2,779)	(1,472)	(1,522)	(1,349)
Inc./(Dec.) in Cash	(24)	45	208	(169)	790
Opening Cash balances	72	49	93	300	131
Closing Cash balances	49	94	300	131	922

Source: Company, Karvy Institutional Research

Exhibit 4: Key Ratios

Y/E Mar (Rs mn)	CY10	CY11	CY12	CY13E	CY14E
Valuation Ratio (x)					
P/E (on FDEPS)	10.7	9.4	8.9	10.6	10.0
P/BV	3.7	3.9	3.2	2.9	2.6
EV/Sales	1.6	1.2	0.9	0.9	0.9
EV/EBITDA	7.1	7.4	7.2	8.7	7.7
EV/Total Assets	2.64	2.63	2.23	2.10	1.88
ROCE (Pre-tax)	34.67	30.12	28.06	19.57	20.05
ROE	32.65	33.93	33.30	24.49	23.21
Turnover ratios (x)					
Asset Turnover (Gross Block)	2.03	2.38	2.74	2.59	2.23
Inventory / Sales (days)	2.14	1.99	3.03	3.05	2.42
Receivables (days)	19.26	24.55	27.75	32.49	36.09
Payables (days)	31.68	35.77	38.14	36.13	35.26

Source: Company, Karvy Institutional Research

KARVY STOCK BROKING

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Stock Ratings		Absolute Returns
Buy	:	> 15%
Hold	:	5-15%
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